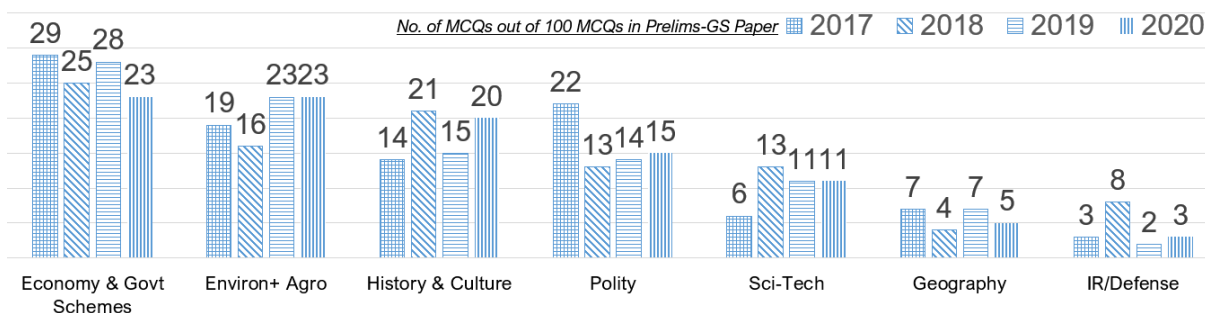


Mrunal's Economy for UPSC & Other Competitive Exams 2021



If you want to get married, Priority#1 should be to find bride/groom. i.e. FINISHING CORE SYLLABUS OF 1) Geography, 2) Environment, 3) Agriculture, 4) Economy, 5) Polity, 6) History-Culture, 7) Science-Tech, 8) IR 9) Ethics & 10) Optional Subject.
 ☞ Current Affairs is NOT a separate subject. It should be seen embedded within above 10 Subjects.

☞ Booking Pre-wedding photographer CANNOT be PRIORITY#1 i.e.
 #Daily-2-hr-Current-Affairs-Videos
 #Daily-Mock-Tests
 #Daily-Mains-Ans-Writing, #RayjasabhaTV & all other 'Pageview' oriented 'Products'

Figure 1: क्योंकि बहोत सारे बच्चे ये सबसे जरूरी चीज समजते नहीं, और चिकनी-चुपड़ी बातें करनेवाले Baba-लोगों के 'अंधे-भक्त' बनके अपने age/attempt बर्बाद करते हैं।

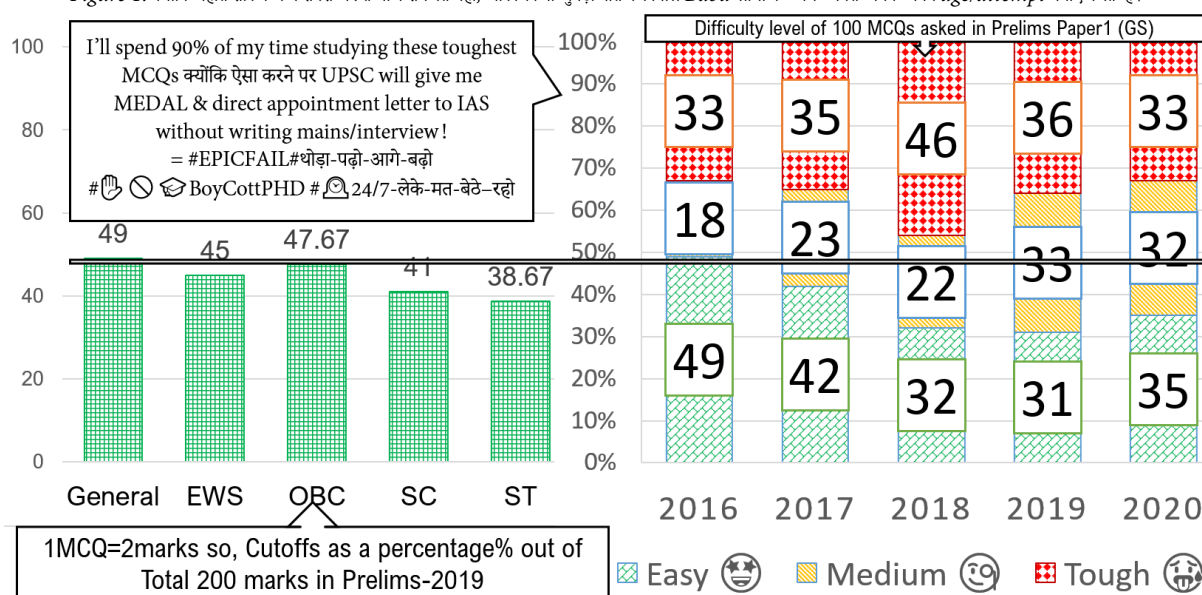


Figure 2: यानि की इधर Economy में हमको B.Com, M.Com, CA, BBA, MBA, PHD करना नहीं है! #थोड़ा-पढ़ो-आगे-बढ़ो #लेके-मत-बेठे-रहो

For more: Refer to Topicwise Papers & Trend analysis available: [Mrunal.org/Prelims](https://www.mrunal.org/Prelims) and [Mrunal.org/Mains](https://www.mrunal.org/Mains)

📌 Instructions for Live Class

- If audio/video stuck then refresh page by Ctrl+SHIFT+R; If electricity / internet outage, fear not, because recording will be available in your account.
- Keep following things ready before the class (1) Handout PDF saved in your harddisk. No need to take printouts. You may get them printed after Corona is subdued. (2) Two pens of different colors 3) Unruled A4 sized pages. Don't staple/spiral the pages or printouts, so you can add more blank pages in future to add your own updates.
- If doubts in lecture itself, notedown in paper/diary → Ask in Google query form after class, which I'll reply in a combined PDF file on weekly basis. (गूगल फॉर्म से मिले आपके प्रश्नों का साप्ताहिक क्रम से जवाब दिया जाएगा, निश्चित रहिए!)
- To Download Handout: <https://unacademy.com/course/mrunals-economy-course-for-upsc-prelims-mains-2021-63/BYTRF4K9> → click on 'updates' button → a sidebar will open → download from there.

UPSC CSE-2021: Basic Reading List for GS

(# का मतलब है कि ये किताबें / PDF हिंदी में भी उपलब्ध हैं)

🌐 Geography

- # NCERT: First class 11-12's four textbooks on physical, Indian & human geography. Then NCERT 7-10 Social Science- only those chapters not covered in Class 11-12.
- Geography Lecture in your [+] subscription
- Goh Cheng Leong: All ch EXCEPT 4 to 10.
- # Majid Hussain's Geography of India: All chapters EXCEPT 1, 4, 5, 6, 9, 14, 15, 16.
- # If time, IYB-2021* ch. 1 and 30, else ignore.

🌾 Agriculture

- # NCERT Geography, Science Textbooks, Followed by Current Affairs (CA) related to Biotech
- Agri's Economy / Scheme / Budget angles → Mrunal's class & handout

🌿 Environment

- # NIOS PDF on Environment
- Shankar IAS's Book, # IYB21 Ch. 12
- # NCERT Chemistry Class 11: Ch. on Environ. Chemistry.
- # NCERT Biology 11-12: selective study of chapters related to flora-fauna, biotech

💰 Economy

- Theory, Contemporary, and Current issues from Mrunal's lecture series and its handouts.
- 🖱️ No need for NCERT 9-10 or Class 12 Micro/Macroeconomics or Old NCERT or Tamilnadu State Board textbooks. 🖱️ No need for Ramesh Singh, Sanjeev Verma, Nitin Singhania, SriRAMIAS or any other book/material.

To improve vocabulary & expression skills for Mains:

- ☒ # NCERT Class 11 Indian Economic Dev.
- ☒ # After my course is over, read Introductions and conclusions of each chapter of vol1 of all economic surveys from 2015 onwards from <http://indiabudget.gov.in/>
- ☒ # Chief Editor's Desk (Preface page) of last 2 years' Yojana & Kurukshetra mags from http://yojana.gov.in/Recent_archive_2019.asp (URL mein change year number for previous Archives)

🏛️ Polity

- # Indian Polity by M.Laxmikanth
- # Governance in India by M.Kartikyan for GSM2
- # IYB21: ch.2,3, 20, 28.
- Current Affairs: Notable judgements, Committees, Appointments.
- # PrsIndia.org: Passed Acts
- # (Selective) NCERT Socio and PolSci 11-12

🌐 International Relations (IR)

- Pavneet Singh's IR Book (selective study).
- Followed by CA from Newspaper/PDF/Mags.

📖 History-Culture

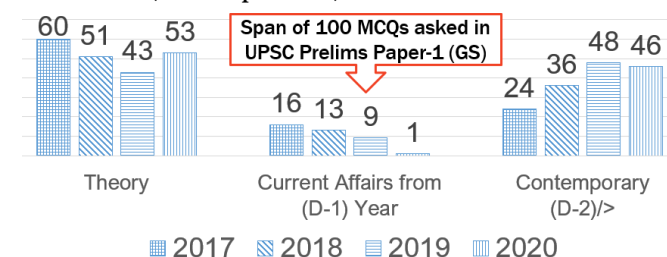
- 🖱️ No need for old NCERTs. Poor Cost:Benefit
- Refer to Tamilnadu (New Color Edition) Class 11-12, # New NCERT
- Freedom Struggle: i) (#)Spectrum for Prelims ii) (#)Plassey to Partition for Mains

🔬 Science Tech

- # Ravi Agrahari's Science-Tech book.
- (then, If time permits) Read all chapters: NCERT 7-10. (then, If time permits) Read only selective chapters of: NCERT 11-12 related to Environment, Biotech, Spectrum waves etc.

🗞️ Current & Contemporary Affairs (CCA)

- Any one newspaper: Daily IndianExpress or theHindu. 🖱️ Not both! ☒ Only one.
- **Make newspaper NOTES ONLY FOR** Optional Subject, Cases Quotable for Essay / GSM4, & factoids imp. for UPSC interview i.e. about your home-state, hobbies, graduation & job (if any). No need to make notes for GS.
- **It's true that not many Qs are coming from PDF/Mag** compilation, but if you manually try to make your own current affairs notes from newspaper, you'll never finish other parts of syllabus.
- Daily CA-Excel file at <https://Mrunal.org/current> [its primary utility is Mains & Ethics ke liye content points]
- Use any one FREE PDF/Mag compilation: Unacademy Articulate, VisionIAS, iasparliament, (#)DrishtiIAS, etc. from 1/1/2019 (Ref: Graph below)



- * IYB-2021= India (yearbook) 2021 by Ministry of Info & Broadcasting to be published next year. Don't buy India 2020. Infact no need to buy even 2021's edition, just refer to free e-summaries on NET.

- **CSAT-Paper2:** Use any Paper-II Manual by McGraw-Hill, Arihant, Pearson, Disha etc. solve few  MCQs from each section and/or the classes on Unacademy / Youtube.

Table 1: What has UPSC asked from Economy in recent years?

Economy: 6 Pillars™	Prelims P1 (GS 100  MCQs)					Mains GSM-1-2-3 (750 Marks)					Remarks
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020*	
 1_Money Banking, Finance & Insurance	6	6	7	7	9	25	0	0	0	15	Most useful in Prelims but less in Mains
 2_Budget, FC, GST	3	3	4	1	1	12.5	30	25	25	15	Second lowest utility after 5_Infra
 3_Intl_Trade, BoP	11	4	4	7	7	25	0	30	0	15	Third lowest utility after 2_Budget.
 4_Sectors, GDP, Inflation, Microeconomics	4	8	3	8	5	25	60	50	65	55	Useful for both prelims and Mains.
 5_Infrastucture	2	4	1	3	1	37.5	10	15	15	15	Lowest utility among 6 pillars.
 6_HRD	3	4	6	2	0	50	40	60	75	85	Useful for both prelims and Mains.
Total	29Qs	29Qs	25Qs	28Qs	23Qs	175m	140m	180m	180m	200m	

10 ECONOMY PILLAR #1-A1) MONEY: BARTER TO BITCOIN

10	 Economy Pillar #1-A1) Money: Barter to BitCoin.....	3
10.2	 Barter system & its disadvantages: (वस्तु विनिमय प्रणाली).....	5
10.3	 Money: Functions of (पैसे के कार्य).....	5
10.4	 Money: Evolution & Types (मुद्रा की उत्क्रांति व प्रकार).....	6
10.4.1	 Commodity Money / वस्तु मुद्रा (Intrinsic value: अंतर्भूत मूल्य? Yes).....	6
10.4.2	 Metallic Money / धातु मुद्रा (Intrinsic value? Yes).....	6
10.4.3	 Paper Money / कागजी मुद्रा (Intrinsic Value? No).....	6
10.4.4	 Legal Tender (वैधानिक निविदा).....	7
10.4.5	 (New) Visually Handicapped (VH) friendly Coins, 2019-March.....	8
10.4.6	 RBI's App to help the blind identify currency notes.....	8
10.4.7	 (NEW) Mahatma Series Currency Notes in India.....	9
10.4.8	 "I promise to pay the bearer...": Meaning of this promise?.....	9
10.5	 Redenomination: drop zeros, change name.....	10
10.5.1	 Iran = Toman to replace Iranian Riyal (2020).....	10
10.6	 Bank Money / Deposit Money.....	10
10.6.1	 Paper orders: Cheque, Demand Draft (DD).....	10
10.6.2	 Cheque → NPCi's Cheque Truncation System (CTS-2010).....	11

10.6.3	  Cheque → Positive Pay Mechanism for Cheques	11
10.7	  Electronic Orders / Digital payment	12
10.7.1	  CBS (full form: Core Banking Solution / हिन्दी अनावश्यक)	12
10.7.2	  Next Generation Treasury Application (NGTA), 2020-Oct	12
10.7.3	  Interoperability Problem (इंटरोऑपरेबिलिटी)	13
10.8	 What is NPCi?	14
10.8.1	QR Codes: compulsory to implement UPI/Bharat QR from 2022	15
10.8.2	  Perpetual Licence for Payment System Operators?	15
10.8.3	 New Umbrella Entity (NUE) for Retail Payments System (2019)	16
10.8.4	 Google Gpay / Tez App	16
10.8.5	  Digital Payment- Misc: → Semi-closed PPI (2019)	16
10.9	 Credit & Debit Cards (also called 'Plastic Money')	17
10.9.1	 Card Types based on Security Features: (सुरक्षा प्रणाली के हिसाब से कार्ड के प्रकार)	18
10.9.2	  Card Tokenization (RBI allowed it, 2019)	18
10.9.3	  National Common Mobility Card (NCMC, 2019)	18
10.9.4	  FASTag for paying toll fees at highways (2017)	18
10.9.5	  ATM and its Types	19
10.10	 MDR: Full form: Merchant Discount Rate (व्यापारिक छूट दर)	19
10.11	  Measures to promote Less-Cash Economy	20
10.11.1	  RBI's Nandan Nilekani Panel (2019: Jan to May)	21
10.11.2	  Payments Infrastructure Development Fund (PIDF) 2020-Jun	22
10.11.3	  Scheme of Offline Retail Payments Using Cards and Mobile Devices	22
10.11.4	  Payment and Settlement Systems in India: Vision 2019 – 2021	22
10.11.5	  RBI Digital Payments Index (DPI: डिजिटल भुगतान सूचकांक)	22
10.12	  Digital Payment Regulatory bodies	22
10.12.1	  Digital Transactions Ombudsman (2019)	22
10.12.2	 (Proposed) Payment Regulatory Board (PRB)	22
10.13	 Crypto-Currency & Blockchain Technology	23
10.14	 Cryptocurrency legal status: → India	24
10.14.1	  Cryptocurrency & India → RBI ban revoked by SC	24

10.14.2	India → 🇮🇳 🌐 🌱 Banning of Cryptocurrency Bill, 2019.....	25
10.14.3	🌐 🌱 Cryptocurrency usage outside India (विदेशों में क्रिप्टो मुद्रा का प्रयोग)	25
10.14.4	🌐 🌱 🏆 Cryptocurrency → Stable-coins.....	26
10.14.5	🌐 🌱 🏆 Cryptocurrency → Stable-coins → Facebook's Libra	26
10.15	🐼 🌐 🌱 Central Bank Digital Currency (CBDC)	26
10.15.1	🐼 🌐 🌱 = 🍷 🍷 Benefits of CBDC (फायदे)	27
10.15.2	🐼 🌐 🌱 = 🚧 🍷 Challenges of CBDC (चुनौतियाँ)	27
10.15.3	🐼 🌐 🌱 📝 CBDC: Conclusion (निष्कर्ष)	27
10.16	📝 Essay: Cashless Economy- Charms and Challenges.....	28
10.16.1	📝 Conclusion: Cashless Economy (निष्कर्ष)	29
10.16.2	📝 🗂️ 🌐 🌱 📝 Mock question for Mains/ESSAY	29

10.2 🍷 🌐 BARTER SYSTEM & ITS DISADVANTAGES: (वस्तु विनिमय प्रणाली)



Barter system was introduced by **Mesopotamian** tribes. Barter system has following disadvantages:

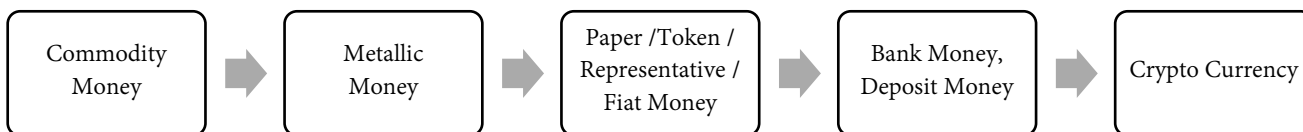
- 🐼 Double co-incidence of Wants (आवश्यकताओं का दोहरा संयोग).
- 🐼 Search Cost & Transaction cost is high. (सही दाम पर चीज ढूँढने व लेनदेन की लागत बढ़ जाती है)
- 🐼 Storage of perishable commodities is difficult, results in loss of value. (नाशवान वस्तुओं का मूल्यहास)
- 🐼 Doesn't encourage specialization and division of labour (श्रम विभाजन को प्रोत्साहित नहीं करता).
- 🐼 Fungibility problems:
 - **Fungible item**= Division & Mutual substitution possible e.g. 1kg gold bar = 100gm x 10 smaller bars, Currency Notes.
 - **Non-fungible items** example: Diamonds, Shares-Bonds of different companies.

10.3 🗂️ MONEY: FUNCTIONS OF (पैसे के कार्य)

Primary [प्राथमिक] 2functions	Secondary (S-T-D) [सहायक] 3functions	Contingent [प्रासंगिक] 3
1. 🗂️ Measure of Value (मूल्य का मापक). gm=wt, ml=vol, ₹=value 2. 🗂️ Medium of Exchange (विनिमय का माध्यम). Buy & Sell goods and services using money as the 'medium'.	1. 🐼 🗂️ Store of Value (मूल्य का संचय) 2. 🗂️ Transfer of Value (मूल्य का स्थानांतरण). Soldier in Kashmir to parents in Kanyakumari 3. 🐼 Deferred Payments (स्थगित भुगतानों का मानक). E.g. Buy iphone12 @₹3177 only per month x 36 months' Equated Monthly Installments (EMIs) = ₹1,14,372.	1. Basis of credit system, Financial markets (share, bond etc.: More in 🗂️ Pillar#1C-sharemarket) वित्तीय बाजार का आधार है पैसा 2. Employing factor of production i.e. Land, Labour, Capital (<i>More in 🗂️ Pillar#4C</i>) उत्पादन के कारक 3. Creation & Redistribution of National Income via taxation .

Primary [प्राथमिक] 2functions	Secondary (S-T-D) [सहायक] 3functions	Contingent [प्रासंगिक] 3
	Actual price is ₹79,900, but ₹34,472 extra Interest.	(Pillar#2) राष्ट्रीय आय का पुनःवितरण करने में मदद

10.4 MONEY: EVOLUTION & TYPES (मुद्रा की उत्क्रांति व प्रकार)



10.4.1 Commodity Money / वस्तु मुद्रा (Intrinsic value: अंतर्भूत मूल्य? Yes)



- ⇒ Iron Nails, Bear Pelts, Cocoa Beans, Whale Teeth, Gold Nuggets
- ⇒ **Problems?** Perishable, not uniform, not pure, foreigners may not accept. नाशवान, एकसमान नहीं, शुद्ध नहीं, अस्वीकार भी कर सकते हैं।

10.4.2 Metallic Money / धातु मुद्रा (Intrinsic value? Yes)

- ⇒ Traders & Kings stamped their marks on gold nuggets for uniformity & trust.
- ⇒ Indo Greek kings & Kushana kings issued gold coins, but Gupta Gold coins most spectacular- king is playing Veena, shooting animals, standing with wife, taking selfies.
- ⇒ Delhi Sultanate Kings: **Silver Tanka**. Sher Shah Suri **Rupiyah** silver coin. Akbar: **Muhr**.
- ⇒ Metal has **INTRINSIC VALUE** i.e. Metallic money = Use it as "money", or you can melt the metal → use that metal for making jewellery / weapons because metal itself has its value / usages. उस मुद्रा की धातु पिघला कर कुछ और चीजे भी बना सकते हैं। क्योंकि धातु का अपना : अंतर्भूत मूल्य / उपयोगिता है।
- ⇒ On the other hand, paper-currency note= You can't use currency-note's paper as a notebook or diary. So currency notes have no intrinsic value. उसके कागज का उपयोगिता कुछ नहीं है, क्योंकि उसपे छपाई कर दी है।

Further SELF STUDY: History of Indian coins from Nitin Singhania's book on Indian Art & Culture (2nd Ed.) Ch.23 OR (3rd Ed.) Ch.24. IF you don't have the book, then ref: NCERT & TN History Textbooks.

Table 2: Types of Coins



Gupta Coin: ~8 gm GOLD



50 paisa modern coin: ~4 gm steel

Full Bodied Coins	Token Coins (प्रतीककात्मक)
Intrinsic Value (अंतर्भूत मूल्य) is Equal to or MORE than its Face Value (अंकित मूल्य)	LESS. (धातु एकदम सस्ती वाली इस्तेमाल करते हैं या बहुत ही कम वजन की धातु इस्तेमाल करते हैं)
Challenge? ⇒ Debasement: ▾ decreasing the amount of metal in coins. Usually happens when king's rule gets weak/poor e.g. Aurangzeb, Roman Kings. सिक्के में धातु की मात्रा को कम किया जाए तब लोगों का उस राजा के शासन से विश्वास कम होने लगता है	⇒ 1330s: Tughlaq's Token coin experimentation = #EPICFAIL (Why? Prepare in History subject). ⇒ Modern Indian coins are token coins. Cupronickel metal used to discourage melting. Coinage Act 2011 prohibits melting of coins.

10.4.3 Paper Money / कागजी मुद्रा (Intrinsic Value? No)

Fiat money (वैधानिक मुद्रा): It MUST fulfil two conditions **SIMULTANEOUSLY**: दो शर्तों का एकसाथ पालन होना चाहिए।

1. It **MUST BE** in the form of Physical Currency Coin / Physical Currency Notes / VirtualCoin/ DigitalCoin/ CryptoCoin **AND simultaneously** और साथ ही साथ
2. It **MUST BE** issued by the order of a King / Queen / Government / Central Bank.

	⇒ Govt issues all coins upto ₹ 1,000, using powers of powers of Coinage Act 2011. ⇒ ₹ 1 Note signed by Finance Secretary (वित्त सचिव) ⇒ ₹ 1 note doesn't contain "I promise to pay bearer..."
	⇒ RBI issues: Currency notes other than ₹ 1 Note using the powers of RBI Act 1934. ⇒ Currency notes have Governor's sign: "I promise to pay bearer..."

☹️ FAQ: why is it like this!!!!?? WHY CAN'T RBI ISSUE BOTH coins & currency notes!!?

Ans. Send your suggestion to PM, to merge above two laws. Until it's implemented, remember table for passing exam. प्रधानमंत्री को कागज लिखो दोनों कानूनों का एकीकरण करने के लिए. जब तक वह नहीं होता तो इस handout में दिया है उतना परीक्षा के लिए # 🙏 थोड़ा-पढ़ो-आगे-बढ़ो

10.4.4 📌 Legal Tender (वैधानिक निविदा)

To become a 'legal tender', a given coin/currency **MUST** fulfil two conditions **SIMULTANEOUSLY**: एक साथ दो शर्तों को पूरा करना होगा.

1. It must be a FIAT MONEY (जो हमने ऊपर के सेक्शन में पढ़ा). **AND SIMULTANEOUSLY**
2. It must be legally valid for all debts & transactions throughout the country. Other party can't refuse to accept. (लेनदार उसको अस्वीकार नहीं कर सकता)

Table 3: fiat money and legal tender in India

ITEM	A) Is it in form of a physical coin OR physical Note OR Digital Coin	B) Is it issued by Central Bank / Govt / King / Queen	C) Result: Is it Fiat money? (YES If Both Cell A+B give ☒ + ☒)	D) At present, is it legally valid for transaction in India as per Coinage Act or RBI Act?	E) Is it LEGAL Tender in India (Yes, IF C+D give ☒ + ☒)
₹ Indian Rupee: Coins & Notes	☒	☒	☒	☒	☒
Demonetized (विमुद्रीकृत) ₹500, ₹1000	☒	☒	☒	👉	👉
Dollar\$, Yuan, Yen, Euro etc	☒	☒	☒	👉	👉
G-Sec, T-Bill	👉	☒	👉	👉	👉
Shares, Bonds, DD, Cheque, ATM, Cards, Kirana coin, Casino coin, Filmstar-Notes	👉	👉	👉	👉	👉
Bitcoins	☒	👉	👉	👉	👉
Marshall Island: SOV Venezuela: Petro	☒	☒	☒	👉	👉

⇒ ☹️ FAQ: I did not understand this thing and/or I want to engage in intellectual debate why "X" thing is legal tender? Ans. Please watch lecture's recorded video again, more peacefully.

⇒ **Commemorative Coins (स्मृतिचिन्ह रूप सिक्के)** = Fiat money yes but not legal tender unless notified to be used as legal tenders.

Table 4: Fiat Money: Two types of legal tenders

A) 🧑‍🦯 Limited legal tenders (सीमित वैधानिक निविदा)	B) ∞ Unlimited legal tenders: (असीमित वैधानिक निविदा)
	
Payment beyond a limit can be refused.	No such restriction.
- Coinage Act 2011 - Rs. 1 / above → upto Rs.1000 - 50 paise x 20 coins → upto Rs.10 - Below 50 paise withdrawn (2011)	- RBI Act 1934 - Section 26: Every bank note is legal tender in India. - They can be used for settling any amount of debt in India**, lender can't refuse to accept it.

Although in real life, Finance Act 2017: "Cash transactions for less than Rs.2 lakh only. Beyond that use Cheque, DD, NEFT etc. else penalty= entire amount." This rule is to discourage tax-evasion / black money. For more Ref: 📖Pillar#2. But for MCQs, simply accept that **bank notes = unlimited legal tenders.

🧑‍🦯 ? MCQ: Which one of the following correctly describes the meaning of legal tender money? (Pre-2018)

- The money which is tendered in courts of law to defray the fee of legal cases
- The money which a creditor is under compulsion to accept in settlement of his claims
- The bank money in the form of cheques, drafts, bills of exchange, etc.
- The metallic money in circulation in a country

🧑‍🦯 ? MCQ: Consider the following statements (Asked in UPSC-CDS-2011-II)

- In India the minimum denomination coin acceptable for transaction is 50 paise.
- Coins below 50 paise is not a legal tender for payment.

Which of the statements given above is/are correct?

- Only 1
- Only 2
- Both 1 and 2
- Neither 1 nor 2

10.4.5 🧑‍🦯 (New) Visually Handicapped (VH) friendly Coins, 2019-March

- ✓ Govt launched new series of VH-friendly coins of ₹ 1, 2, 5, 10, 20. Ascending order of size & weight. National Institute of Design (NID) helped to design.
- ✓ ₹ 20 coin: 12-sided Polygon (Dodecagon), grains/agro motifs, no serration on edges.
- ✓ Remaining coins are round shaped. (गोलाकार सिक्के)

10.4.6 🧑‍🦯 RBI's App to help the blind identify currency notes

80 lakh people in India are blind (नेत्रहीन). To help them identify currency notes:

- Old series of Gandhi notes have square (50), triangle (100), circle (500) diamond (1000)
- New series of Gandhi notes have bleed lines, raised printing of Gandhi etc.
- But, so many varieties of notes, difficult for VH persons to remember size & shapes so,
- IIT Ropar developed Roshni App.

Separately, 2020-Jan: RBI launched 'Mobile Aided Note Identifier (=MANI)' App.

- Mobile camera scan & identifies the note (Even if it's half folded),
- gives audio notification in Hindi/English, also works offline.
- But can't validate whether note is genuine or fake (Counterfeit जाली नोट नहीं पकड़ सकता यह ऐप),
- Developed by **Daffodil Software company** has developed it for RBI. If a user is both blind and deaf, the app will identify note by giving different set of vibrations.

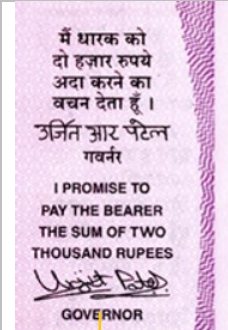
10.4.7 📌 (NEW) Mahatma Series Currency Notes in India

Note	What image is given in this currency note? (इस नोट में कौन सा चित्र होता है?)
₹ 10	Sun Temple, Konark, Odisha. 13 th Century Narsimhadev-I
₹ 20	Greenish Yellow, Ellora Caves in reverse.
₹ 50	Humpi Chariot from Vittala Temple, Karnataka
₹ 100	Lavender color. Rani ki Vav on Saraswati river, Patan. Rani Udaymati for King Bhima-I of Chalukya / Solanki dynasty in 11 th century, UNESCO Heritage site
₹ 200	Sanchi Stupa, Madhya Pradesh.
₹ 500	Red Fort, Delhi by Shah Jahan.
₹ 1000	(update when/if released)
₹ 2000	Mangal Yaan / Mars Orbiter Mission, 2013
New rupee symbol	₹: through competition by Dept of Eco.Affairs in 2010. Designed by D.Udaya Kumar, an Associate Professor @IIT Guwahati.
Nation Symbol	- Lion Emblem: Sarnath Pillar, Uttar Pradesh से लिया गया है - “Satyamev Jayate”: Mundaka Upanishad से लिया गया है
Languages	While Constitution's 8 th Schedule has 22 languages, but currency note has only 17. (15 on Reverse + Hindi & English on frontside (obverse) = 17)
Museum	Budget-2020: a museum on numismatics and trade (सिक्काशास्त्र और व्यापार का संग्रहालय) will be built at the historic ‘Old Mint Building’ in Kolkata .

You can read more about currency notes' features at <https://paisaboltahai.rbi.org.in>

10.4.8 📌 “I promise to pay the bearer...”: Meaning of this promise?

Currency note is zero interest, anonymous bearer bond / Promissory Note.

	Colonia era: Promised to convert into full bodied gold or silver bars / coins worth the equal value in weight. E.g. 1 US Dollar = ~14 grams of gold. 1 British pound = ~73 grams of gold. (👉 in my handout '~' means 'approximate')
	Modern era: Conversion into other Bank notes and “token coins” of equal face value. ₹ 2000 = 500 x 4 Nos.= 100 x 20 Nos etc. Not inflation adjusted value. Not linked with weight of gold or silver.

10.4.8.1 📌 Demonetization of Fiat Money (विमुद्रीकरण: Previously 1946, 1978)

Definition? Demonetization is the wholesale withdrawal of currency notes from circulation. (मुद्राचलन में से कुछ खास किस्म की नोटों को सरकार द्वारा हटा देने की क्रिया को विमुद्रीकरण या नोटबंदी कहते हैं)

⇒ 8/Nov/2016: FinMin → Dept of Economic Affairs gazette notification to ban the “Specified Bank Notes” (SBN) of Mahatma Gandhi series ₹ 500 and 1000.

⇒ Specified Bank Notes (Cessation of Liabilities) Act 2017= RBI not required to honor “I promise to pay...”. Old notes can't be kept except for research or numismatics or museum- and that too in limited amount! More in 📖 pillar#2: taxation → black money.

10.5 🧐💡🔗🧐 REDENOMINATION: DROP ZEROS, CHANGE NAME



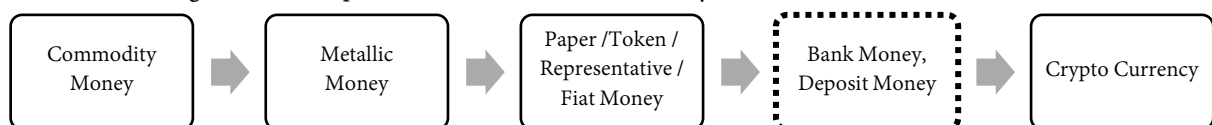
Figure 3: expression when you need 2.5 lakh riyal for a box of eggs 🧐

- ⇒ Inflation (मुद्रास्फीति/मंहगाई) is the rise in the general level of prices of goods and services in an economy over a period of time. [More in 📖 Pillar4C lecture]
- ⇒ **REDENOMINATION** involves removing zeros from currency's face value, to facilitate transactions during high inflation. (मुद्रा नोट के कुछ शून्यों को हटा दिया जाए)
- ⇒ Here, the old currency is not instantly declared illegal / withdrawn from circulation immediately. Old currency is allowed to continue side by side with new currency.
- ⇒ But people are given the option to switch to the new currency. Thus redenomination is considered to be different than demonetization. (नोटबंदी से यह थोड़ा अलग है क्योंकि अचानक से सारे पुराने नोटों को बंद नहीं किया जा रहा)
- ⇒ **REDENOMINATION** doesn't fix inflation problem in reality because
 - 1) not increasing the supply of goods (बाजार में वस्तुओं की आपूर्ति को नहीं बढ़ा रहा)
 - 2) your purchasing power remains the same as before (आंकड़ों की ऐसी लीपापोती से आपकी खरीदशक्ति बढ़ेगी नहीं). Further PHD useless. More on inflation 📖 Pillar#4C lecture.

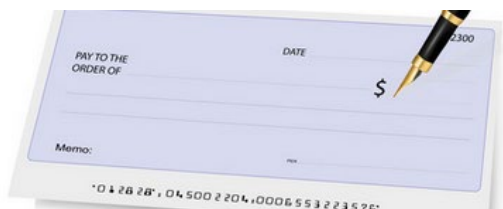
10.5.1 🧐💡🔗🧐 Iran = Toman to replace Iranian Riyal (2020)

Iran suffering from

- ⇒ 1) High levels of inflation. 1 box of eggs cost ~250,000 Iranian rials.
- ⇒ 2) Weak exchange rate (कमजोर विनिमय दर). \$1 costs ~42,000 Iranian rials. [More in 📖 Pillar3A lecture]
- ⇒ So, very inconvenient to carry/count such a large quantity of paper currency.
- ⇒ 2020-May: Iranian Parliament approved a new paper currency "**Toman**" to replace its existing paper currency "**Iranian Rial**" at the rate of **1 TOMAN = 10,000 Rial**.
- ⇒ Although it's not an 'instant demonetization' of Iranian Riyal. It will be replaced with TOMAN gradually in the next 2-5 years. 😊 **Benefit?** Ease of carrying currency and making transactions.
- ⇒ Similar thing was done in past in Zimbabwe (2006) but very old GK NOT.IMP.# 🧐 थोड़ा-पढ़ो-आगे-बढ़ो



10.6 🧐💡🔗🧐 BANK MONEY / DEPOSIT MONEY



10.6.1 🧐💡🔗🧐 Paper orders: Cheque, Demand Draft (DD)

- Viceroy Ripon's Negotiable Instruments Act, 1881: Primary Objective? Cheque dishonor & forgery (परक्राम्य लिखत अधिनियम: बैंक खाते में अप्राप्त रकम के चलते चेक अस्वीकार होना/जालसाजी).
- 2017: Law was amended for faster justice to victim. (त्वरित न्याय के लिए कानून में सुधार)

- **THREE parties in a cheque:** 1) Drawer (Sender), 2) Drawee (Bank), 3) Payee (Recipient)
- **Types of cheques:** 1) **Stale:** Not withdrawn in 3 months, 2) **Post-dated:** After a specific date, 3) **Ante-Dated:** not imp for IAS exam.
- **Open / bearer cheque:** No 'crossing'. Anyone can encash.
- **IFSC code:** Indian Financial System Code- 11 alphanumeric numbers to identify the bank branch, just like PINCODE identifies an area. (कौन सी बैंक ब्रांच है उसे चिन्हित करता है, जैसे पिन कोड किसी इलाके को चिन्हित करता है)
- **MICR code:** Magnetic Ink Character Recognition. 9 digits code written in Iron Oxide ink for automated clearance.
- **Demand Draft (DD):** can't be dishonored (अस्वीकृत नहीं होगा) because sender has to pay amount beforehand to Bank before the Bank issued DD to him → then sender gives DD for paying university fees etc.
- **Overdraft:** When person has insufficient bank balance, still he may withdraw money from his account (as a loan). Such facility is called **Overdraft**. Pradhan Mantri Jan-Dhan account has *Overdraft* upto Rs 10,000/- with certain conditions. (*More in Pillar1D: Financial Inclusion*).
 - o **Overdraft** is mainly for short-term operating expenses. (अस्थायी रूप से लघु अवधि के लिए कर्ज में पैसा उठाना)
 - o **Loans** is mainly for longer term higher value expenses. (दीर्घ अवधि के लिए मोटी रकम का कर्ज लेना)

10.6.2 🐱💳 Cheque → NPCi's Cheque Truncation System (CTS-2010)

- CTS= canned image of cheque electronically sent to the drawee branch for faster clearance without theft or tempering. MICR readers NOT required.

10.6.3 🐱💳👤 Cheque → Positive Pay Mechanism for Cheques

Suppose Roman (Axis Bank, Bengaluru) sends ₹50,000 cheque to Mrunal (SBI, A'bad)

	Cheque clearance B4 2021	😊 Positive Pay Mechanism (Extra-steps)
Sender (Roman)	Roman writes check, gives to recipient Mrunal	Roman (issuer) clicks cheque's photo (📷IMAGE#A) & uploads on Axis Bank's App / Bank's Webportal or send details via SMS2Axis ke "I've given this cheque number-X with Amount-Y to Mrunal on Date-Z"
Recieipient (Mrunal)	Deposits cheque in SBI, A'bad	Same
Recipient's Bank (SBI)	SBI staff sends scans cheque → sends (📷IMAGE#B) to Axis via NPCi's CTS	Same
Sender's Bank (Axis)	Receives msg via CTS, → verifies (📷IMAGE#B) → releases ₹₹	Axis crosschecks whether 📷IMAGE#B = 📷IMAGE#A? If, no mismatch/discrepancy → releases ₹₹
Benefit?	🤖 What if Mrunal (recieipient) manipulated/tempered cheque to encash more amount?	😊 Positive Pay Mechanism prevents such tempering / fraud. चेक में लिखी रकम में छेड़खानी करके मृणाल, रोमन के बैंक खाते से पैसा गबन नहीं कर सकता

⇒ 2016: ICICI Bank introduced Positive Pay for its customers.

⇒ 2020: RBI has ordered all banks to implement it from 1/1/2021 onwards. (📅 Exact DATE NOT IMP)

- o (Optionally available to customers) for amounts above ₹50,000/- (📅 Exact AMT NOT IMP)
- o (Compulsory required) IF amount = ₹5 lakh and above. (📅 Exact AMT NOT IMP)

10.7 ELECTRONIC ORDERS / DIGITAL PAYMENT



Payment & Settlement System Act 2007 empowers RBI to regulate card payment, e-payment related products and services. (भुगतान और निपटान प्रणाली अधिनियम 2007)

10.7.1 CBS (full form: Core Banking Solution / हिन्दी अनावश्यक)

It is a banking software with web-platform for centralized data management & branch-less banking. E.g. Finacle (by Infosys, used in PNB); BanCS (TCS); E-Kuber (RBI)

10.7.2 Next Generation Treasury Application (NGTA), 2020-Oct

⇒ RBI planning this web based application / software for management of

-  Money Market Securities ( Ref: HDT-Pillar#1C)
- Gold Reserves,  Foreign exchange,  Multi currency transactions ( Ref: HDT-Pillar#3A)

⇒  Will this replace E-Kuber? How will it work? Ans. Topic still under development. Further operational aspects not important for the scope of IAS exam. #  थोड़ा-पढ़ो-आगे-बढ़ो

? MCQ: The term ‘Core Banking Solutions’ correct term? (Asked in UPSC Prelims-2016)

1. It is a networking of a bank’s branches which enables customers to operate their accounts regardless of where they open their accounts.
2. It is an effort to increase RBI’s control over commercial banks through computerization.
3. It is a detailed procedure by which a bank with huge non-performing assets is taken over by another bank.

Answer Codes: (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

Table 5: Digital Payment Systems- transaction limits may differ, depending on banks

 Type	RBI’s RTGS: Real Time Gross Settlement	 RBI’s NEFT: National Electronic Funds Transfer	NPCI’s IMPS: Immediate Payment Service
 Transfer Amount	Min ₹2 lakh to ₹2000 crores (SBI).	upto ₹10 lakhs (SBI).	₹ 1 to maximum ₹2 lakhs (SBI)
 Target customers	Bizmen wanting high value transactions instantly	Ordinary retail customers	
 Settlement mechanism	 Instant settlement (इंस्टेंट/तुरंत निपटारा)	- Settles net amount between banks at interval of 30 min.	 Instant settlement
 Timing	BEFORE: Only working days 8AM to 5:30PM(SBI) From 2020-Dec: 24/7	- BEFORE: from 8 am to 7 pm on working days. - From 2019-Dec: NEFT operates on 24/7 basis.	24/7 on all days (दिन रात अविरल रूप से)
 Fees	fee + GST**		fee + GST#

 Type	RBI's RTGS: Real Time Gross Settlement	 RBI's NEFT: National Electronic Funds Transfer	NPCI's IMPS: Immediate Payment Service
 Who can provide this facility?	Only Banks can provide this facility as it requires IFSC branch code.		Banks + (PPI) / mobile-wallet cos like Phonepe, Mobikwik

⇒ ** 2019-Jul, RBI fees & asked banks to pass benefit to customers. → from 1/1/2020 **no fees** if doing online transactions. (but if NEFT/RTGS done by filling paper-form at bank branch then fees may be levied. (आपके पास कंप्यूटर या मोबाइल नहीं है फिर भी आप ऑनलाइन पैसा भेजना चाहते हैं तो आपने बैंक ब्रांच में जाकर NEFT/RTGS करवाने वास्ते कागजी फॉर्म भरना पड़ता है उस वक्त थोड़ी बहुत फ्रीस शायद लग भी सकती है)

⇒ # Although some banks don't charge IMPS fees for transactions upto ₹ "X"/- (EXACT Fig NOTIMP)

 **Mrunal comments before next section:** In the digital wallet apps → companies introduce new features & RBI introduces new technical norms on daily basis. We are not here to write a MBA research paper on their business-model & RBI regulations. Q. "सर आपने बोल phonePe App में 'x' चीज नहीं हो सकती, लेकिन मेने try किया तो अब हो सकती है, तो आपने ऐसा क्यों बोला की वो नहीं हो सकती?" जवाब: भाई वो सिर्फ आपको concept को उदाहरण से समझाने के लिए है। UPSC asking only general broad MCQs from this. If they ask technical, then goto page1, Fig#2. #  थोड़ा-पढ़ो-आगे-बढ़ो

10.7.3 Interoperability Problem (इंटरोऑपरेबिलिटी)

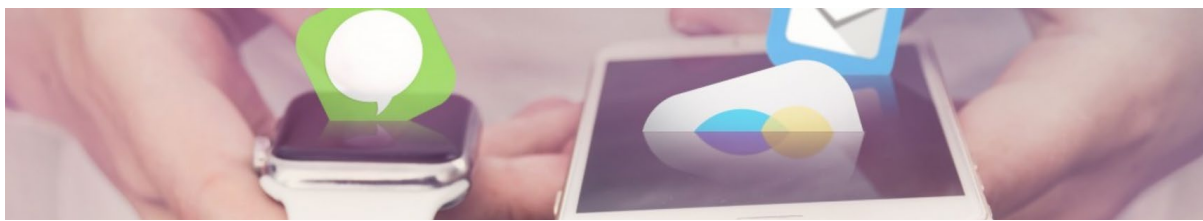


Figure 4: can't connect Apple Watch to Android Phone 

- ⇒ (Definition) Interoperability is the ability of customers to transact across commercially and technically independent payment platforms. व्यावसायिक और तकनीकी रूप से स्वतंत्र भुगतान प्लेटफार्मों के बीच लेन-देन करने की सुविधा
- ⇒ Legal complications under Payment & Settlement System Act 2007, so, we don't have full interoperability; We can't transfer money between one wallet to another wallet, can't use wallet to pay all type of taxes, fees, insurance premiums etc. कानूनी बाधाओं के चलते संपूर्णता इंट्रोऑपरेबिलिटी नहीं थी
- ⇒ This is an obstacle to 'cashless-economy'. So, 2018-October, RBI issued guidelines for interoperability in a gradual / phase wise manner. चरणबद्ध तरीके से इस सुविधा को लागू करने के लिए दिशा निर्देश दिए,

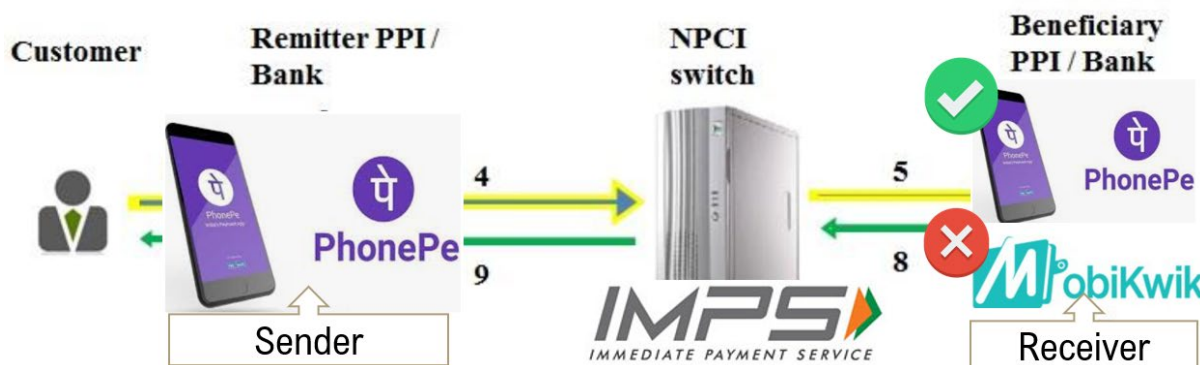


Figure 5: in above diagram, interoperability is absent

10.8 🤖 WHAT IS NPCI?

- ⇒ 2008: National Payment Corporation of India is a “Not for Profit Company” registered under Company Act. Originally it was founded by 10 banks with ₹ 100cr capital. 2020-Dec: Paytm, PhonePe, Amazon Pay etc also became shareholders of NPCI
- ⇒ Objective? Provide cost-effective payment solutions / technology for Banks. (रियायती लागत पर बैंकिंग टेक्नोलॉजी)
- ⇒ Its UPI-BHIM app & other mechanisms also help in financial inclusion of villagers & poors by expanding the reach of banking network. (गरीबों / गाँववालों के वित्तीय समोवेशन में मदद के लिए अलग अलग तकनीकी आविष्कार किए हैं)

Table 6: NPCi has built following mechanisms / platforms / systems / apps:

BBPS	Bharat Bill Payment system for automated monthly payments of utility bills (gas, electricity etc.)
NACH	National Automated Clearing House for bulk monthly payments of utility bills, dividends, salaries, pension / insurance premiums etc.
NFS	National Financial switch runs the ATM network, IMPS, UPI and BHIM
CTS	Cheque Truncation System (2010) learned in previous section
 UPI 1.0 (2016)	Full Form: Unified Payment Interface It's a technology for building digital payment apps based on IMPS with following features: ⇒ QR Scan & Pay to merchants. ⇒ You can link Current Account (CA) Savings Account (SA) for direct transfer of money without storing in 'wallet' first. (unlike AmazonPay / Mobikwick etc) ⇒ Such app can have Push transaction (e.g. Remittance to family), Pull Transaction (e.g. monthly bill deduction by Electricity Co.) or even Bill sharing among friends. ⇒ Examples of UPI based app: SBI's SBIBuddy, Axis Bank's AxisPay and NPCi's own BHIM. ⇒ UPI 2.0 (2018): Upgraded version of UPI. What are its new features? How is it different than UPI 1.0? Ans. not important for our exam. # थोड़ा-पढ़ो-आगे-बढ़ो
 BHIM (2016)	Full form: Bharat Interface for Money (remember this Fullform for exam!) ⇒ It works on Android, iOS/Apple mobiles as an APP, ⇒ Works even on non-smart (=basic feature) phones using *99# USSD-Unstructured Supplementary Service Data. ⇒ Bank to bank / peer to peer transaction using mobile phone (xyz@upi). No need to install multiple apps for each bank account (SBIBuddy, AxisPay etc) just one BHIM app to use all such bank accounts. App has 3 factor authentication system. ⇒ Your money stays in bank account and earns interest. It's not stored in 'wallet' outside your bank account' as it happens in Mobikwick, Phonepe etc. (PS: in later stage, PhonePe etc private apps also included UPI type mechanism so storing money in 'wallet' became optional but we need not engage in Hairsplittery/PHD.) ⇒ No cards involved so no MDR or such hidden charges. ⇒ Sweden: “Swish” app to make their country 100% cashless by 2020.
RuPay (2016)	⇒ Rupee + Payment = RuPay card is world's 7th payment gateway similar to Mastercard, Visacard, China's Union Pay- but at less service charges. ⇒ Works in 3 channels: ATM, Point of Sale Device (PoS/card reader machine), Online portals.

	⇒ Used by banks, railway and even Dairies (to pay ₹ to milk depositor farmers). ⇒ Rupay debit card given free with PMJDY (Jan Dhan) Bank account. ⇒ Rupay has signed collaboration agreements with some digital payments companies in Singapore, Japan etc. So, it may be used in those countries. But presently Rupay is not having the widest reach across all the countries unlike MasterCard and Visa.
AEPS	⇒ Useful for Direct Benefit Transfer (DBT: प्रत्यक्ष हस्तांतरित लाभ) into beneficiary's account for MNREGA wages, LPG subsidy, scholarship etc. 📄 More in Pill#6 ⇒ It's also required for Bankmitra-MicroATM system.
NETC	⇒ National Electronic Toll Collection provides backend technological support to the FASTag toll collection.
PAI chatbot	Artificial Intelligence (AI) based chatbot to reply to people's online queries about NPCI's products like FASTag, RuPay, UPI, AePS etc.
BharatQR(2016)	Developed by NPCi with help of Visa and Mastercard.
DakPay (2020)	Payment App by Department of Post and its India Post Payments Bank (IPPB)

10.8.1 QR Codes: compulsory to implement UPI/Bharat QR from 2022

- 1990s: 2 dimensional (2D) Quick Response (QR) Code system developed in Japan.
- Indian E-payment systems function on 3 types of QR Codes, namely,

Table 7: 📄 Difference between UPI QR vs Bharat QR? NOT.IMP.4.EXAM ⌚ थोड़ा-पढ़ो-आगे-बढ़ो

Proprietary QR code	e.g. Paytm or PhonePe ke exclusive QR codes. 🤖 Problem? Other companies' app may not be able to scan and pay it.
UPI QR code	Generated by UPI app of NPCi
Bharat QR code	Developed by NPCi with help of Visa and Mastercard.

⇒ RBI has ordered all the Payment System Operators (PSOs e.g. Paytm, PhonePe, MobiKwik, Google Pay etc) to shift to UPI QR or Bharat QR by March 31, 2022. RBI has prohibited them from launching any new proprietary QR code.

⇒ 😊 Benefit? All Payment apps will be able to scan these QR codes → 'interoperability'.

10.8.2 🏠📄📅 Perpetual Licence for Payment System Operators?

Payment and Settlement Systems Act, 2007: RBI gives license to Payment System Operators (PSOs).

Type of PSO	Examples
Umbrella Entity For Retail Payments	NPCI (learned in previous section)
Card Payment Gateway Operator	MasterCard, Visa, Rupay
Crossborder / International Remittance	Western Union, MoneyGram
Prepaid Payment Instrument (PPI)	AmazonPay, Mobikwik, Phonepe, PayU, PayTM Wallet etc
Atm Operators	SBI etc's own ATMs White label ATMs by Tata, Muthoot, SREI etc
Financial Market Infrastructure Provider	Clearing Corporation of India (CCI): provides backend digital infrastructure for share/bond/foreign currency deals etc. (📄 Ref: HDT-Pillar#1C)

2020-Oct: RBI introduced following reforms in PSO-licence validity

🤖 Before	😊 After (2020-Oct)
📄📅 License validity= 5 years.	📄🔄 Perpetual License = valid for infinite time period. (सदा के लिए/ सतत अवधि के लिए मान्य लाइसेंस)

Afterwards, RBI may renew again. हर 5 साल पर लाइसेंस का पुनः नवीनीकरण कराना पड़ता था 🤖	
⇒ Company owner's uncertainty: whether my licence will be renewed or not? 🤖	⇒ Ease of Doing Biz. Now company owner can focus on his business peacefully. 😊 (व्यापार में सुगमता/ आसानी/ निश्चिता)
⇒ RBI officers' time also wasted in processing the files / docs every 5yrs.	⇒ RBI officers' time saved. (रिजर्व बैंक ऑफ इंडिया के अफसरों के समय की बचत)

10.8.3 🤖 New Umbrella Entity (NUE) for Retail Payments System (2019)

- ⇒ Presently, Paytm has rival companies like Mobikwik, Phonepe; Mastercard vs Visa; SBI vs Axis Bank; but there is no rival company against NPCi. उसका प्रतिस्पर्धी कोई नहीं है
- ⇒ NPCi is an umbrella entity for retail payments system - it operates in card payment (RuPay), Money transfer (IMPS), Mobile Apps (UPI, BHIM), ATM Network (NFS) etc.
- ⇒ 2020: RBI issued a proposal, "if any Indian company interested to compete in this (NPCi-like) retail payment segment, we'll license them as new umbrella entity (NUE: खुदरा भुगतान के लिए नई छतरी इकाई). Subject to these technical "XYZ" technical eligibility requirements" [What are those eligibility conditions e.g. Minimum Capital, Shareholding Pattern etc.? 🤖 NOTIMP4EXAM, no matter how many private mock test walla ASK it in their Faaltu-Tests #🤖 थोड़ा पढ़ो-आगे बढ़ो]
- ⇒ 😊 **Benefits?** More companies like NPCi → more competition → more innovation and cheaper services for users. (स्पर्धा बढ़ेगी तो नए तकनीकी आविष्कार होंगे, डिजिटल भुगतान सेवाएं पहले से भी ज्यादा सस्ती / किफायती, ग्राहक का फायदा)

📌 ? MCQ. Find Correct Statement(s) [asked in UPSC- Prelims-2018]

1. National Payments Corporation of India (NPCi) helps in promoting the financial inclusion in the country.
2. NPCi has launched RuPay, a card payment scheme.

Answer codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

📌 ? MCQ. Find Correct Statement(s) [asked in UPSC- Prelims-2018]

1. BHIM app allows the user to transfer money to anyone with a UPI-enabled bank account.
2. While a chip-pin debit card has four factors of authentication, BHIM app has only two factors of authentication.

Answer codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

10.8.4 🤖 Google Gpay / Tez App

- ⇒ Google Pay (GPay, formerly called 'Tez') is an App by Google for online payments.
- ⇒ As such, Payment Service Operators need to register with RBI under Payment and Settlement Systems Act, 2007. But google functioned without such authorization. बिना आरबीआई के लाइसेंस/ पंजीकरण के चला रहा है
- ⇒ 2019-April: Delhi HC inquired. Google clarified: "Google Pay operates as a technology service provider to its partner banks, using UPI infrastructure. We are not part of payment processing or settlement. Payment is directly done from one bank account to another. So, we require no license / authorization / registration required from RBI." Beyond that 🤖🤖🤖🤖 जिसको आंदोलनकारी बनना है → वो झंडा लेकर जंतर-मंतर पर धरना प्रदर्शन करे, जिसको IAS/IPS बनना है वह आगे का Next topic पढ़े....

10.8.5 🤖 Digital Payment- Misc: → Semi-closed PPI (2019)

Prepaid Payment Instrument (PPI: प्रीपेड भुगतान साधन) is a money storage and transfer tool. It can be used to buy goods and services; & sending ₹ to friends, family, etc.

- ⇒ Eg. Paytm Wallet, Airtel Money, PhonePe, Mobikwik, Amazon Gift card, Railway prepaid cards etc.
- ⇒ RBI regulates them under Payment and Settlement Systems Act 2007

⇒ **2019-Dec:** RBI introduced a new type of semi-closed prepaid payment instrument (PPI) : how its features are different than regular PPI? ANS. NOT IMP. # 🕒 थोड़ा-पढ़ो-आगे-बढ़ो

10.9 📠 CREDIT & DEBIT CARDS (ALSO CALLED ‘PLASTIC MONEY’)



Table 8: 📠 Card Types based on Payment modality

1) Credit Card (एक प्रकार से कर्ज पे शॉपिंग)	2) Debit Card (अपने बैंक बचत का पैसा इस्तेमाल करो)
⇒ It allows holder to make purchase on credit (=loan), even if he may / may not have sufficient balance in his bank account at the time of purchase. एक तरह से कर्ज पर खरीदने की सेवा ⇒ Customer does shopping using credit card → bank transfers ₹ ₹ to merchant from bank's own funds and later bank recovers ₹ ₹ from customer. ⇒ Customer can pay entire due amount at once or convert it into Equated Monthly Installments (EMI). बकाया रकम किश्तों में भुगतान कर सकता है ⇒ Interest rate may be charged depending on billing cycle, grace period and other terms and conditions 🎓 PhD करने की हमको जरूरत नहीं है.	- It allows holder to make purchases upto the extent of the amount lying in own his bank balance. अपने बैंक खाते में जितना पैसा है उतना ही इस्तेमाल - Customer does shopping using debit card → bank transfer ₹ ₹ from customer's own bank account to merchant. So, if he has insufficient balance, he may not be able to make purchase. Although nowadays e-commerce sites allow debit-card based EMIs but that much 🎓 PhD/Hairsplittery unnecessary for IAS For 📌 MCQ. Simply remember: Debit card= shopping ONLYIF you have ₹ in bank balance, Credit card= shopping without ₹ in bank balance.
If Credit card used for withdrawing money from ATM, then it's a type of 'borrowing', so, bank levies interest rate.	Debit card can be used to withdraw ₹ ₹ from ATM from your existing bank balance. So, it's not 'borrowing'.
Credit card vs Overdraft? - Credit cards = for shopping. You carry card in your pocket. Bank may give u some reward-points/gifts if you spend “₹.X” per year - for overdraft= you have to manually visit the bank branch, fillup form. It's not in the form of a 'card'. Doesn't give u points/gifts. 🖐 Further difference not.imp.not.here.for.IBPS-exam	Debit card vs Overdraft? You should be intelligent enough to self-understand that much. शिक्षक हर चीज की स्पून फीडिंग करेगा वह विद्यार्थी के मानसिक विकास के लिए अच्छी बात नहीं

⇒ **3) Hybrid Card / Duo Card:** Single card containing two chips for 1) credit card and 2) debit card. So, you don't have to carry two separate cards. E.g. Indusbank Hybrid card. एक ही कार्ड में दोनों का मजा 😊

⇒ **4) Pre-paid card:** It's a subtype of debit card. While debit card is linked to a given bank account, a person can buy pre-paid card even without having account in the given bank e.g. IRCTC's UBI Prepaid Card which can be used for buying rail tickets, meals etc. Backend support provided by Union Bank of India (UBI) and NPCi's Rupay gateway. (इस कार्ड को पैसा देके खरीदना पड़ता है। लेकिन बैंक खाता होना जरूरी नहीं ।)

10.9.1 Card Types based on Security Features: (सुरक्षा प्रणाली के हिसाब से कार्ड के प्रकार)

1. **Magnetic Card:** 60s technology. Data on magnetic strip. But, such data can be duplicated, cloned, skimmed while swiping the card = fraud. So, RBI stopped such cards from 1/1/2019 using powers under Payment & Settlement Act. चुंबकीय कार्ड में जालसाजी का खतरा  → इसलिए आरबीआई ने  प्रतिबंधित किया
2. **EMV card:** Full form: Europay+Mastercard+Visa chip infrastructure with encryption. RBI had ordered migration in 2013- finally effective from 1/1/2019. Two sub-types
 - o (A) **EMV-Contact:** cards must remain in Point of Sale (PoS) Terminal during transaction.
 - o (B) **EMV-contactless cards:** simply tap the card on terminal using RFID (radio-frequency identification) technology.

HomeWork: Read about RFID & NFC from Sci-Tech book/internet.

10.9.2 Card Tokenization (RBI allowed it, 2019)

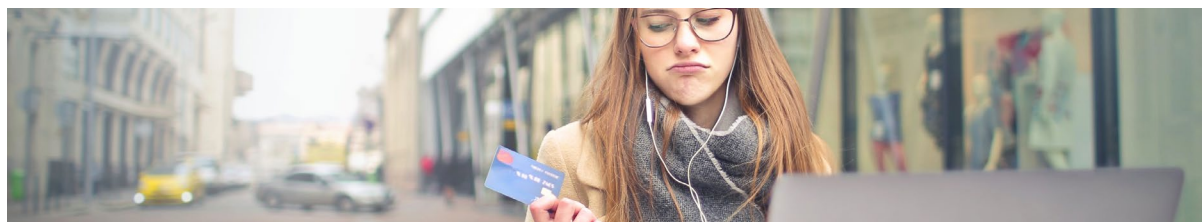


Figure 6: Thappad se darr nhi lagtaa, Identity theft se lagtaa hai!

- ⇒ Amazon, Paytm & other sites / app allow users to store their card information (owner's name, card number, expiry date) so next transaction can be finished faster without having to re-type those details.
- ⇒ But such facility also exposes customer to hacking, privacy, identity theft, misuse so, Tokenization = Token number is generated for a given credit/debit card.
- ⇒ Card customer gives the token number during any type of online / physical shop transaction → so his original card number, its expiry date etc. are masked/hidden from the third party seller / wallet / app / portal = more security and privacy.

10.9.3 National Common Mobility Card (NCMC, 2019)



Figure 7: NCMC card unboxing ka video bhi youtube & Instagram pe daalte hai!

Ministry of Housing & Urban Affairs (MoHUA) got India's 1st indigenously developed 'One Nation One Card Model' with the help of NPCi, Bharat Electronics Limited (BEL), CDAC and some banks. It has 3 components:

- ⇒ 1) **NCMC Card:** To be issued by banks. Nature can be Debit/Credit/Prepaid. Can be used for metro, bus, suburban railways, toll, parking, smart city payments and retail shopping.
- ⇒ 2) **SWEEKAR:** Automatic Fare Collection System. (यात्री किराया वसूलने की स्वचालित प्रणाली)
- ⇒ 3) **SWAGAT:** Swachalit / Automated Gate at railway/bus station.

10.9.4 FASTag for paying toll fees at highways (2017)

FASTags are prepaid rechargeable tags that allow for automatic toll collection at electronic toll collection gates Radio-frequency Identification (RFID) technology.

- 2013 onwards Govt required vehicle manufactures to install RFID tags on windcreens.

- 2017: National Highways Authority of India (NHAI, a statutory body under Highways ministry) launched 2 mobile apps **MyFASTag** and **FASTag Partner** to facilitate Electronic Toll Collection (इलेक्ट्रॉनिक पथकर/टोल वसूली).
- Persons loads up ₹ ₹ in his mobile app → activates RFID tag in his car → when it passes through highway toll-booth, the money is automatically deducted = faster traffic movement. (and **hidden benefit**: tracking of vehicle theft, criminal's movement etc.)
- FASTag is vehicle specific and once it is affixed to a vehicle, it cannot be transferred to another vehicle. It has validity of 5 years.
- NPCi's has **National Electronic Toll Collection (NETC)** provides technological support.
- Highways Ministry is also trying to bring **inter-operability** (आंतरसंचालनीयता) of the FASTags i.e. single FASTag can be used for paying ₹
 - at State Highways Toll Plaza (under State Governments' purview) as well as
 - at National Highways Toll Plaza (under Union Government's purview).
- From middle of Feb 2021, it became mandatory for all vehicles passing through tolls to have FASTags. Vehicles without FASTags will have pay up more fees/toll at the gates.

10.9.5 ATM and its Types



- ⇒ Automated Teller Machine (ATM) allow bank customer to withdraw money or check balance without visiting any branch of a bank.
- ⇒ ATM network works on NPCi's NFS (National Financial Switch).

Bank label	Bank itself owns and operates the ATM network.
Brown label	Bank owns but operations outsourced (cash refilling truck, guard) - Note: Some books offer different definition, but I've taken above from <i>Economic Times Article 2015</i>.
White label	Non-Bank owns and operates. E.g. Muthoot Finance, Tata Communication, Prism ⇒ In 2012: RBI invited application, 4 companies given license. ⇒ From 2013-19 no new applications invited. ⇒ 2019-Aug: RBI announced 'on-tap' licensing system for white label ATM i.e. a company can apply to RBI as and when it wants (just like applying for driving license), company doesn't have to wait for applying (unlike IAS exam notification).
Micro-ATM	Bankmitra manually makes entries of deposit and withdrawal for customer. He uses handheld device for using card & Aadhar biometrics. NPCi's AEPS technology gives backend technological support.

2019-June: RBI setup V G Kannan Committee to examine ATM charges by banks-such BankingGK
#notIMP4IAS.

10.10 MDR: FULL FORM: MERCHANT DISCOUNT RATE (व्यापारिक छूट दर)

- ⇒ MDR is the fees that a merchant must pay to his (acquirer) bank for every credit / debit card transaction.
- ⇒ MDR fees is **shared** among 3 parties 1) customer's card issuing bank 2) merchant's acquiring bank 3) payment gateway provider.

⇒ MDR hurts merchants' profit margin, discourages them from adopting Point of Sale (PoS) terminals (=card swiping machine) → obstacle to digital economy. व्यापारी के मुनाफे पर असर होता है इसलिए वह कार्ड मशीन अपनाने में उदासीनता दिखाते हैं

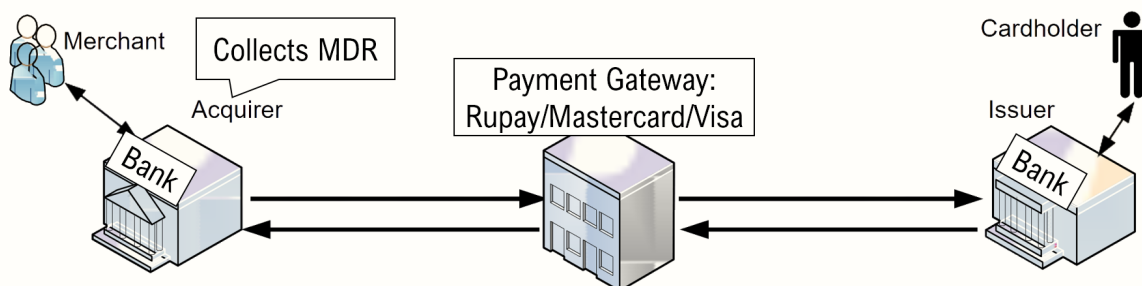


Table 9: Steps taken to address MDR issue

RBI	⇒ 2017: Imposed ceilings on MDR fees i.e. MDR can't be more than "x%" of the transaction amount.
MEITY	⇒ WEF 1/1/18: Ministry of Electronics & Information Technology (MEITY) started MDR-subsidy to acquirer bank on bills upto ₹ 2,000, if payment made via Debit Card ⇒ Scheme valid for 2 years. ⇒ 😊 Direct benefit: Encourage digital payments ecosystem. ⇒ Indirect Hidden benefit: Datamining of tax evading merchants
Budget	⇒ Nirmala.S's Budget-2019: If biz.firm turnover > ₹ 50 crore → It must provide facility to accept Rupay debit card and UPI QR code. (Else penalty under Income Tax Act) ⇒ NO MDR on such transaction. ⇒ RBI and Banks will absorb this 'burden' as a benefit of not handling so much cash. (Payments and Settlement Systems Act, 2007 rules amended for this part).

^ऐसी सब तकनीकी चीजों का हिंदी तैयार करने की कोई जरूरत नहीं. Mains में आसान भाषा में लिख दो, "डिजिटल भुगतान को प्रोत्साहन देने के लिए सरकार ने एमडीआर फीस का बोझ कम करने के लिए सब्सिडी और अन्य कदम उठाए हैं।"

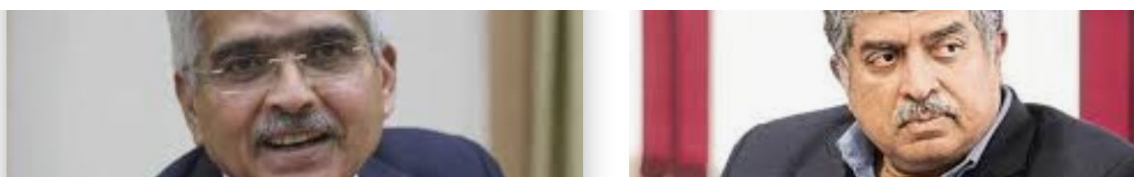
10.11 🏠 🏢 🏫 📊 MEASURES TO PROMOTE LESS-CASH ECONOMY

- ⇒ During 2016-17 in the aftermath of Demonetization (विमुद्रीकरण के बाद)
- ✓ **Ratan Watal** Committee to Finance Ministry for medium term recommendations to strengthen digital payment ecosystem. (डिजिटल भुगतान पारिस्थितिकी तंत्र को मजबूत करना)
 - ✓ **Chandrababu Naidu** chief ministers' Committee to PM to promote digital payment.
 - ✓ HRD ministry's **Vittiya Saksharta Abhiyan** wherein college students explain people about digital transactions. (डिजिटल भुगतान कैसे करें उसकी जागृति फैलाना)
 - ✓ NITI+NPCi launched lottery / cashback schemes for customers (**Lucky Grahak**) and merchants (**Digi Dhan Vyapar**). Government itself launched further referral bonus, cashback schemes for using UPI-BHIM.
- ⇒ **Budget-2017:** imposed ceilings on cash transactions, gave tax incentives to companies for using digital transactions, 📦 custom duties on ATM devices. (नगदी व्यवहारों पर रोकथाम, डिजिटल भुगतान अपनाने पर करें में रियायत)
- ⇒ **Budget-2018:** promised to explore blockchain technology [of cryptocurrencies] for promoting digital economy.
- ⇒ **Budget-2019 by Nirmala.S:** imposed TDS on withdrawal of ₹1 cr/> cash from a single user account.
 <More in 📖 Pillar2: Taxation → Black Money> (अपने बैंक खाते से मोटी नगदी रकम उठाने पर टीडीएस लगेगा)

Table 10: Awareness campaigns for Digital Payments- *DONOT lose Sleep. बहुत ज्यादा उपयोगी नहीं है।*

Digidhan Mission (2017)	⇒ Ministry of Electronics and Information Technology (MeitY), to create awareness about digital payments. It'll expire on 31/3/2020, unless renewed further. ⇒ MEITY also launched a DIGIDHAN DASHBOARD web portal to monitor the digital transactions in India.
Digital Payment Abhiyan (2019-Sept)	⇒ MEITY + Google India + Data Security Council of India (DSCI, a not-for-profit organization by NASSCOM) ⇒ They launched this nationwide awareness campaign for digital payment- how to use UPI, wallets, cards, online banking etc

10.11.1 RBI's Nandan Nilekani Panel (2019: Jan to May)



Nilekani (Ex-chairman of UIDAI, also associated with Infosys) gave total 70+ suggestions. Notable are:

Suggested Reforms @Government

- ⇒ Under Direct Benefit Transfer (DBT: प्रत्यक्ष लाभ अंतरण) mechanism, Government transfers subsidies and payments directly to bank accounts of poor people.
- ⇒ But poor people withdraw cash from bank account entirely because local merchants not accepting digital payments. So, raise awareness about BHIM-UPI and its adoption.
- ⇒ Give companies tax incentives (कर प्रोत्साहन) for using digital payments.
- ⇒  reduce taxes on the devices required for digital payments.
- ⇒ Govt orgs should not charge **convenience fees** (सुविधा शुल्क) from citizens while accepting digital payments.
- ⇒ **National Common Mobility Card (NCMC)**: Allow its usage in all transport routes and PoS.
- ⇒ Setup **Computer Emergency Response Team** for finance (FIN- CERT: आपातकालीन प्रतिक्रिया टीम).

Nilekani's Suggested Reforms @RBI

- ⇒ RBI should prepare area wise '**Digital Financial Inclusion Index**' (डिजिटल वित्तीय समावेशन सूचकांक) to monitor progress & take remedial steps. Ensure no user is more than 5 kms away from a banking access point.
- ⇒ Setup an **Acceptance Development Fund** (डिजिटल भुगतान स्वीकृति विकास निधि) to develop digital payment infrastructure in poorly served areas e.g. subsidy on PoS devices. RBI and Banks should co-contribute ₹ in this fund.
- ⇒  Reduce the MDR / card payment fees. Allow customer to do "x" no. of digital payment transactions per month with zero charges.
- ⇒ RBI should make NEFT available 24/7 and remove its fees. (2019-20: RBI removed charges on both NEFT and RTGS and asked the banks to pass on the benefits to customers.)

Nilekani's Suggested Reforms @NPCi

- ✓ NPCI shd offer RuPay and BHIM UPI in other countries to facilitate remittance to India.
- ✓ Encourage local language apps/ software for digital payments.

Nilekani also suggested many other technical reforms but notimp4exam

  MCQ. Who among the following was the Chairman of the Committee on Deepening Digital Payments appointed by the RBI ? (Asked in UPSC-CDS2019-II-Q116)

- (a) H.R.Khan (b) Nandan Nilekani (c) N.R.Narayana Murthy (d) Sanjay Jain

10.11.2 Payments Infrastructure Development Fund (PIDF) 2020-Jun

- ₹250cr from RBI + ₹250 cr from (Banks and Card Gateway Operators) → ₹500 cr fund setup.
- **Objective?** Provide funding/ subsidy to encourage merchants in the small towns, villages and North Eastern states to adopt point-of-sale (PoS) card swiping machines.

भुगतान इंफ्रास्ट्रक्चर के लिए निधि/कोष: गांव, छोटे शहरों और उत्तर-पूर्वी इलाकों में व्यापारियों को कार्ड मशीन अपनाने के लिए मदद

10.11.3 Scheme of Offline Retail Payments Using Cards and Mobile Devices

- While mobile phones, cards, e-wallets, etc.  but, internet connectivity issues especially in remote areas= obstacle to digital economy  
- So, 2020-Aug: RBI announced trials /pilot-testing for Off-line payments through cards, wallets and mobile devices for small value transactions. (इंटरनेट बंद हो तब भी छोटी रकम के भुगतान डिजिटली किए जा सके, इस प्रकार के परीक्षण आरबीआई करवा रहा है.)
- How this thing really works is not important for the scope of the exam. #   

10.11.4 Payment and Settlement Systems in India: Vision 2019 – 2021

RBI published this document in 2019-May. it repeated most of the points that Nilekani report said. As such

 not much IMP unless preparing for RBI exams, then

rbi.org.in/Scripts/PublicationVisionDocuments.aspx?Id=921

10.11.5 RBI Digital Payments Index (DPI: डिजिटल भुगतान सूचकांक)

- ⇒ With 5 component: (i) Payment Enablers (weight: भारांक 25%), (ii) Payment Infrastructure – Demand-side factors (10%), (iii) Payment Infrastructure – Supply-side factors (15%), (iv) Payment Performance (45%) and (v) Consumer Centricity (5%).
- ⇒ Base Year 2018@100, then annual growth measured in Digitisation of payments. (आधार वर्ष के सामने डिजिटल भुगतान के विभिन्न मानकों में कितनी बढ़ोतरी हुई)
- ⇒ Report will be published 4-4 months.

10.12 DIGITAL PAYMENT REGULATORY BODIES

10.12.1 Digital Transactions Ombudsman (2019)

- ⇒ RBI designates senior RBI officials at 21 places across India as DTO (डिजिटल लेनदेन शिकायत निवारण अधिकारी).
- ⇒ They hear customer complaints upto ₹ 20 lakh against prepaid payment instruments, Mobile wallets, Apps, NEFT/RTGS and other digital transactions.
- ⇒ They can order the company / bank to fix problem and pay upto additional ₹ 1 lakh for mental agony of customer (मानसिक उत्पीड़न के लिए जुर्माना/मुआवजा). → Higher Appeal to **Dy.Gov of RBI**.
- ⇒ If matter > ₹ 20 lakh, then matter outside his jurisdiction. Victim has to approach ordinary courts /consumer courts depending on the case matter.

10.12.2 (Proposed) Payment Regulatory Board (PRB)

- ⇒ **1998:** Narsimham-II Committee on Banking Reforms suggested regulatory framework for e-banking, card payment etc.
- ⇒ **2007:** Payment & Settlement Systems Act (भुगतान और निपटान प्रणाली अधिनियम) → RBI → (Statutory) Board for Regulation and Supervision of Payment and Settlement Systems (BPSS: भुगतान और निपटान प्रणाली के विनियमन और पर्यवेक्षण के लिए बोर्ड). All payment system providers have to register with RBI's BPSS- whether bank, non-bank, wallet/Prepaid Payment Instrument (PPI) etc.
- ⇒ **2016:** **Ratan Watal Committee** on digital payment suggested replacing this BPSS with a Payments Regulatory Board (PRB: भुगतान नियामक बोर्ड) in RBI. This PRB to look after Interoperability, Consumer protection, Innovation, R&D in digital payments.

- ⇒ **2018:** draft Payment and Settlement System Bill to implement PRB.
- ⇒ But, RBI vs Government difference of opinion about who should be chairman, how many members from Government side etc. रिजर्व बैंक और सरकार के बीच मतभेद के चलते अभी तक बनी नहीं है

10.13 CRYPTO-CURRENCY & BLOCKCHAIN TECHNOLOGY



- ⇒ **[Definition] Cryptocurrency:** is a digital / virtual currency created & stored using blockchain technology. क्रिप्टोमुद्रा एक डिजिटल मुद्रा है जिसे ब्लॉकचेन तकनीक का उपयोग करके बनाया और संग्रहीत किया जाता है।
- ⇒ **[Definition] Blockchain:** A secured decentralized database that maintains a continuously growing list of records / transactions. Old entries can't be deleted, new entries will be visible to all. Mainly used for running cryptocurrency network. But it can also store any type of data. एक डेटाबेस जो रिकॉर्ड की निरंतर बढ़ती सूची को विकेंद्रीकृत रूप से बनाए रखता है।
- ⇒ **[Origin]** Anarchist (अशासनवादी) groups lost faith in **FIAT MONEY** because USA's Subprime Crisis (2007) eroded the purchasing power of US Dollar. They also dislike **BANK MONEY / DEPOSIT MONEY** because of transaction charges on e-banking, card payments, MDR, interoperability issues.
- ⇒ **2009:** An anonymous user Satoshi Nakamoto launched a cryptocurrency 'Bitcoin', total 21 million coins, wherein 1 Bitcoin (BTC) = 10^8 Satoshi (the smallest unit).
- ⇒ Ethereum, Litecoin, Digicoins, Laxmicoin, Ripple etc. are also cryptocurrencies.

3 ways to obtain Cryptocurrency	  Negative Points / Challenges
1) Mining of the blockchains using powerful computers शक्तिशाली कंप्यूटर द्वारा खनन	- Graphics cards demand & price hike: 2x-4x times due to bitcoin mania. E-waste generation. - Thermal Electricity wastage worth 20 megaton CO₂ - Iran: People deploying large number of computers for Bitcoin mining → Electricity outage in normal houses → Diesel generator →  Pollution / smog. So Iran is cracking down on such bitcoin mining centres. - If quantum computer invented it'll solve blockchains in seconds, thus crashing the value of Bitcoins.
2) Selling goods and services to a miner / owner of cryptocurrency जिसके पास क्रिप्टो मुद्रा है उसे कोई वस्तु या सेवा बेचो	- Bitcoin wallets have "public address" (like an email) & private key (like a password). Unlike Paytm wallet, possible to create a Bitcoin wallet without any phone number or email id. So, difficult to trace by law enforcement agencies. Misuse in Narcotics, Illegal trade, Terror finance. * * - Selling goods/services in exchange of Bitcoins = Government deprived of GST, Custom duty, Income tax. सरकार को कर नहीं मिलेगा - If Scam: can't get justice under Consumer Protection Act. ग्राहक सुरक्षा कानून में न्याय नहीं मिलेगा
3) Exchanging legal tender to buy cryptocurrency. वैधानिक मुद्रा की मदद से क्रिप्टो मुद्रा को खरीदो	- For traditional Rupee to Dollar exchange, Forex dealers have to register with RBI under FEMA Act. (Foreign Exchange Management Act,  Pillar#3) - But, if ₹ or \$ exchanged with Bitcoin = terror finance, sending black money to tax havens. (आतंकी वित्तपोषण, काले धन को बाहर भेजना)

	- Bitcoin exchange rate: speculation, volatility, Government deprived of Capital Gains Tax (CGT: पूंजीगत अभिलाभ कर, 📄 Pillar#2) - Ponzy investment frauds- so, Government came up with 'Banning of Unregulated Deposit Schemes Ordinance/bill, 2019'. (More in 📄 Pillar1D: Financial Inclusion.)
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**** Student Query:** How is Bitcoin not traceable, I've read at XYZ that we can trace it using XYZ thing ? Ans.

we are not here for B.Tech (Computer Science) Semester exam. #👉👈👉👈 #👉 थोड़ा-पढ़ो-आगे-बढ़ो

📄 ? MCQ. Find correct statement(s) about Bitcoin? [UPSC-CDS-2017-I]

1. It is a decentralized virtual currency.
2. It is generated through complex computer software systems.
3. The Reserve Bank of India recognized it as a legal tender in January 2016.

Answer Codes: (a) 1 only (b) 1 and 2 only (c) 2 and 3 only (d) 1, 2 and 3

📄 ? MCQ. Find correct statement(s) about "Blockchain Technology" [UPSC-Prelims-2020,SetB-Q20]

1. It is a public ledger that everyone can inspect, but which no single user controls.
2. The structure and design of blockchain is such that all the data in it are about cryptocurrency only.
3. Applications that depend on basic features of blockchain can be developed without anybody's permission.

Answer Codes: (a) 1 only (b) 1 and 2 only (c) 2 only (d) 1 and 3 only

10.14 📄 📄 CRYPTOCURRENCY LEGAL STATUS: → INDIA

India was neither the first nor the only country to ban cryptocurrencies. Nepal, Bangladesh, Morocco, Algeria, Equator, Bolivia et al already banned it. (कई देशों ने इसे प्रतिबंधित किया है गैरकानूनी घोषित किया है)

	⇒ 2017-18: Dinesh Sharma Committee to FinMin & Subhash Chandra Garg committee to FinMin suggested Government to ban it. ⇒ 2018: Budget says Crypto-currencies are not legal tenders. We'll eliminate use of these crypto-currencies in financing illegitimate activities or as part of the payment systems. (अवैध वित्तीय गतिविधियों में क्रिप्टो मुद्रा का उपयोग बंद करवाएंगे)
	⇒ RBI's Institute for Development and Research in Banking Technology (IDRBT)- studying how to use blockchain technology for promoting digital economy. ⇒ Since 2013, RBI had been warning people. 2018: RBI directed all banks/PPI/mobile-wallet cos. to stop relations with any Cryptocurrency company.

10.14.1 📄 📄 Cryptocurrency & India → RBI ban revoked by SC

Since 2013: RBI had been warning Indians not to get involved in cryptocurrency due to frauds, tax evasion and terror finance. **2018:** RBI directed all banks/NBFCs/PPI/mobile-wallet companies to stop relations with any Cryptocurrency company. Then some cryptocurrency exchange website companies like CoinDCX etc went to Supreme Court alleging that:

- ⇒ Parliament has not made any law declaring this activity as illegal (unlike possession cocaine / narcotics.)
- ⇒ Even Japan, USA, Singapore etc has not completely banned investment in cryptocurrency but imposed regulations to control its misuse/fraud. (अन्य देशों ने संपूर्णता प्रतिबंधित नहीं किया बस निगरानी के लिए सख्त कानून बनाए हैं)
- ⇒ **Anekantavada philosophy** of Jainism: 4 blind men try to describe an elephant but end up describing only one physical feature of the elephant. (आरबीआई और सरकार को पता ही नहीं है कि क्रिप्टो मुद्रा क्या चीज है)
- ⇒ Similarly, without fully studying the nature/impact of cryptocurrency, a blanket ban was placed, which has killed their business since no bank is opening their bank accounts. (हमारे व्यवसाय के हक को छीन लिया है)

📄 **2020-March: SC revoked the RBI ban because (सुप्रीम कोर्ट ने रिजर्व बैंक के प्रतिबंध को हटा दिया क्योंकि):**

- ⇒ Article: 19(1)(g): All citizens have the right to practise any profession (व्यवसाय का हक)- including those companies dealing with cryptocurrency.
- ⇒ Same objective (financial fraud protection) could be achieved by imposing a less drastic ban.
- ⇒ So, RBI ban did not pass the **test of proportionality**.
 - Proportionality test is a legal method used by courts in matters where State's decision (for public safety/welfare e.g. Aadhar card or Bitcoin ban) interferes with fundamental rights of people (right to privacy, right to business)
 - अनुपातिकता की परीक्षा: सरकार जो जनहित में निर्णय ले रही है, वह मूलभूत अधिकारों का किस अनुपात में हनन कर रहा है?

What next? 🇮🇳 RBI may release a calibrated regulation on cryptocurrency e.g. PAN card required, can't invest more than ₹"x" lakh per month etc. topic is still developing.

10.14.2 India → 🇮🇳 🌐 🗳️ Banning of Cryptocurrency Bill, 2019

- ⇒ Ministry of Finance → Department of Economic Affairs has proposed a draft bill called the 'Banning of Cryptocurrency & Regulation of Official Digital Currency Bill, 2019' (क्रिप्टोक्यूरेंसी पर प्रतिबंध और आधिकारिक डिजिटल मुद्रा का विनियमन विधेयक, 2019).
- ⇒ It aims to ban the use of all types of cryptocurrencies issued by private operators. Non-bailable offense (गैर-जमानती अपराध), jail upto 10 years.
- ⇒ However, (if and when) RBI launches a blockchain-based digital currency, it'll be permitted.

10.14.3 🌐 🗳️ Cryptocurrency usage outside India (विदेशों में क्रिप्टो मुद्रा का प्रयोग)

 UNICEF 	⇒ United Nations International Children's Emergency Fund (UNICEF, HQ- New York, USA; 1946, later renamed to UN Children's Fund) ⇒ 2019-Oct: UNICEF setup a Cryptocurrency Fund to accept donations in cryptocurrencies. It has become the first UN organization to accept cryptocurrency. (यूनिसेफ संस्था दान में क्रिप्टो मुद्रा का भी स्वीकार करती है)
 World Bank (More about this org in 📖 Pillar#3B)	⇒ 2018-Aug: World Bank launched World's first blockchain bond called "Bond-i" in Australia, denomination: Australian Dollars → public invests, gets ~2% interest after 2 years. ⇒ Blockchain bond requires less cost in server / database / paperwork maintenance unlike traditional bonds. <i>More in Pillar#1C: SEBI/Sharemarket</i> ⇒ World Bank's report "Remittance Prices Worldwide 2020" says it costs an average 6-7%, to transfer money from one country to another, blockchain based money transfer technologies can help 📉 ब्लॉकचेन तकनीक द्वारा पैसा भेजने पर लागत खर्च में कमी
Bill of Rights	⇒ World Economic Forum (WEF) is a non-government organization in Cologny- Geneva, Switzerland. (विश्व आर्थिक मंच. गैर सरकारी संगठन) ⇒ 2020-May: Published a document, 'Blockchain Bill of Rights'. Document talks about rights to accountability, transparency, data privacy, data protection etc. (ब्लॉकचेन अधिकार पत्र/विधेयक: जवाबदेही, पारदर्शिता, डेटा गोपनीयता, डेटा सुरक्षा आदि के अधिकार) ⇒ Aims to set global standards for web-developers, corporates and governments who're building/using blockchain technology. (वैश्विक मानदंड बनाएगा) But, WEF is not as big body as United Nation, and this report is not as great as the United Nations' Universal Declaration of Human Rights. So, 🙌 DON'T LOSE SLEEP.
Elon Musk (2021)	Announced "🚗🇺🇸 Tesla Electric car can be purchased using bitcoin, in future" → This is created crazy demand for bitcoins among investors → 1BTC selling for over \$50,000.

Marshall Islands	Capital: Majuro, Sovereign state having free association with USA (for defense, social security, budget). Legal Tender was U\$D. But, ⇒ 2018-Feb: became first country to launch sovereign cryptocurrency named "Sovereign" [SOV]. So, now two legal tenders: U\$D and SOV. ⇒ No anonymity unlike Bitcoins. (गुमनामी की सुविधा नहीं.)
	- Bolivar currency = little value in Venezuela country due to hyperinflation, and failed economy. (अत्यधिक महंगाई के चलते बोलिवर मुद्रा का मूल्य/खरीद-शक्ति न के बराबर है) - So, 2018: President Nicholas Maduro launched "Petro" - a cryptocurrency whose price is linked with market price of 1 oil barrel. Their Supreme Court recognized it as "Fiat money – Legal Tender". - Can be bought using Dollar, Euro, even other cryptocurrencies.
 China	- 2020: started trials to for Central Bank Digital Currency (CBDC)

10.14.4 Cryptocurrency → Stable-coins



- ⇒ Stablecoin is a type of cryptocurrency whose price is backed by a reserve asset like gold / dollar / fiat currency e.g. Facebook's proposed 'Libra', Tether, Basecoin, and TrueUSD.
- ⇒  But, stablecoins challenges: 1) money laundering (धनशोधन / काले धन को वैध बनाना) 2) terror financing (आतंकी वित्तपोषण) 3) lack of consumer protection (उपभोक्ता संरक्षण की कमी) 4) financial frauds (वित्तीय धोखाधड़ी).
- ⇒ **2019-Dec: European Union** announced, "No stable coins shall be allowed in EU until we frame law."
- ⇒ **2019-Jun: G20 summit at Osaka, Japan.** The leaders expressed similar apprehension. (आशंका/डर जताया)

10.14.5 Cryptocurrency → Stable-coins → Facebook's Libra

'Libra' is a blockchain based cryptocurrency to be launched in 2020 by Facebook's subsidiary company 'Calibra', using programming language 'Move'.

- ⇒ Visa, Uber, Paypal, PayU etc. had also invested in project. But later some of these co-partners left
- ⇒ Unlike Bitcoin, this Libra coin's exchange rate will be stable because Libra's value backed with Financial assets like G-sec, fiat currencies.
- ⇒ You can buy Libra with Fiat Money → stored in Calibra wallet. Libra can be re-converted to fiat money.
- ⇒ Usage: Money transfer through Whatsapp, Online shopping.
- ⇒ All this may happen ONLY IF regulators permit. But France says, "we'll not allow it in Europe."

10.15 CENTRAL BANK DIGITAL CURRENCY (CBDC)



केंद्रीय बैंक डिजिटल मुद्रा / संप्रभु डिजिटल मुद्रा

- 2020-May: People's Bank of China (PBC) started trials to issue its paper fiat money Yuan/Renminbi in digital format. (कागजी रूप में मुद्रा छापने की जगह, डिजिटल रूप में जारी करना → और उसे लाभार्थी को ई-बैंकिंग के जरिए मुहैया कराना)
- ⇒ PBC will use supercomputer to create its fiat currency (Yuan also called 'Renminbi') in digital format → transfer it to the recipient via e-banking e.g. loan to govt, salary to employee etc.

- ⇒ European Central Bank (ECB) and RBI have also setup internal committees to study the feasibility of CBDC. (केंद्रीय बैंक डिजिटल मुद्रा की व्यवहार्यता के लिए समितियां बनाई गई है)
- ⇒ 2020-Jan to Oct: China's digital Yuan trial experiment # 🌐🏦👤🕒📱 थोड़ा-पढ़ो-आगे-बढ़ो
- ⇒ 2020-Oct: USA's stand: " we don't want to be the 1st to launch the digital currency, rather, we want to do it error-free. Because there are many risks associated" (इसमें जोखिम बहुत है इसलिए हमको जल्दबाजी में अन्य देशों से पहले इसे लागू करना नहीं है!)

10.15.1 🌐🏦👤=👤🕒📱 Benefits of CBDC (फायदे)

CBDC/ Sovereign Digital Fiat Money / Digital Base Money will provide following benefit

1. 📉 Cost **printing and transporting** physical currency. लागत और परिवहन खर्च में कमी
2. 📉 Scope for **counterfeiting**. जाली नोट बनाना मुश्किल
3. 📈 **Traceability**, 📉 **Anonymity**: सुराग लगाना आसान, गुमनाम/अज्ञात रहेना मुश्किल
 - a. Whether money is reaching the intended beneficiary or not? (लाभार्थी को योजना का पैसा मिला कि नहीं)
 - b. From where did the businessman accumulate this money, did he pay an appropriate amount of tax or not? Else auto-alert to the Income tax department for tax evasion. (करचोरी पर निगरानी आसान)
4. 📉 **mass hysteria of Bitcoin** & other Cryptocurrencies, which are issued by private actors & pose danger of Terror Finance, Narcotics etc. (निजी क्षेत्र द्वारा जारी क्रिप्टोमुद्रा के प्रति लोगों का आकर्षण/ सामूहिक पागलपन कम होगा.)
5. 📈 **Homogeneity and promptness** of disbursal: (त्वरित और एक रूप तरीके से पेसा हर जगह/ हर व्यक्ति को भेजना)
 - a. With the click of a button, Money could be sent to beneficiaries' account whether he is located in Kashmir or Kanyakumari. Irrespective of Curfew/Lockdown/Floods/Bank Hartals- Students will receive scholarship, farmers will receive subsidy, and senior citizens will receive pension.
6. Can be evolved into a **Programmable Digital Currency** to control the allocation of new money for development of various sectors. (अलग-अलग क्षेत्रों के विकास के लिए पैसे को "प्रोग्राम" करके भेजना)
 - a. E.g. if RBI issues Programmable-Digital-Rupee → SBI → Student Loan → its Interest rate will be automatically "X%",
 - b. but if SBI manager tries to circulate this money as loan-4-buying-luxury-iphone then A) either computer system will reject it or B) change interest rate to Y%
 - c. [How will that work? Ans. 🙋📱 #Boycott-PHD #थोड़ा-पढ़ो-आगे-बढ़ो.]
7. 📉🦠 Spread of virus through physical currency notes. [Mains Logical Structure: low level benefits should be written at the bottom part of the answer.]

10.15.2 🌐🏦👤=👤🕒📱 Challenges of CBDC (चुनौतियां)

1. Digital Divide, Financial Literacy, Access Points: (डिजिटल उपकरणों की उपलब्धता की खाई, वित्तीय साक्षरता का भाव, डिजिटल भुगतान इस्तेमाल करने के पहुंच बिंदुओं की कमी)
 - a. Not everyone has electronic gadgets or internet connectivity,
 - b. Not everyone knows how to operate bank account digitally,
 - c. Not every village shopkeeper accepts payments in the digital form.
2. Cyber Terrorism/Nuclear Attack/Natural Disaster. If electronic equipment stops functioning → economy will stop functioning. (साइबर आतंकवाद / परमाणु हमला / प्राकृतिक आपदा: विद्युत उपकरण बंद तो अर्थव्यवस्था बंद)

10.15.3 🌐🏦👤📱 CBDC: Conclusion (निष्कर्ष)

- Considering above charms and challenges, CBDC
- can 'supplement' physical currency BUT cannot substitute/replace it completely, for India. (डिजिटल मुद्रा, कागजी मुद्रा की 'पूरक' तो हो सकती है, लेकिन 'सम्पूर्ण विकल्प/एवज' नहीं)

🗣️ Mrunal Comments: We've accumulated sufficient points for 250 words. Beyond this further PHD/intellectualism is unnecessary e.g. USA has blocked Syrian/Iranian banks from accessing the

SWIFT system used in international money transfer. But, China will setup parallel digital messaging system to transfer digital yuan to fund Iran/Syria for its own subversive purposes against USA. If you start writing these side-points, you will miss the core points, while time & word limit will be over.

10.16 ESSAY: CASHLESS ECONOMY- CHARMS AND CHALLENGES

नगदी-रहित अर्थतंत्र के आकर्षण और चुनौतियां

- **(Origin)** In ancient times, people used to trade with each other using barter system. But its limitations _ _ _ _ <give evolution story>. प्राचीन काल में, लोग वस्तु विनिमय प्रणाली का उपयोग करके एक दूसरे के साथ व्यापार करते थे। लेकिन इसकी मर्यादाओं ने पैसों को जन्म दिया।
- **(Definition)** A cashless economy is an economy where financial transactions are not conducted with money in the form of physical banknotes or coins, but rather through electronic methods such as _ _ _ _ <insert examples>. नगदी-रहित अर्थतंत्र वित्तीय लेनदेन भौतिक/नगदी स्वरूप के सिक्कों या बैंकनोट में नहीं, बल्कि इलेक्ट्रॉनिक तरीकों से वित्तीय लेनदेन किए जाते हैं

Stakeholder	 : Charms आकर्षण	 : Challenges चुनौतियां
 RBI  Shaktikanta Das	- Saves cost of printing new currency (Rs.27 billion a year) – environment, - Better efficacy of monetary policy updates, NPA/fraud surveillance. (More in  Pill1A2)	- MDR, Interoperability, Fintech companies evolving more rapidly than legal framework. - KYC: Aadhar vs privacy debate (Ref: Polity, SC Judgement) आधार कार्ड और नागरिक की निजता का संघर्ष
 Govt.	- Better tax surveillance, checks on fake counterfeit currency terror finance, - targeted delivery of agri-loans and subsidies/ DBT: Annually ₹ 1 lakh crore can be saved. - Can save farmers from moneylenders, and poor families from Ponzi schemes. (More in  Pill1D)	- Power, telecom infra not available everywhere. बुनियादी संचार सुविधा की कमी - Government itself must become a role model first in handling tax, tender, tolls, procurements through digital payment. सरकारी विभाग खुद नगदी में काम पसंद करते हैं - To encourage digital payment if subsidy, tax breaks, lotteries given for perpetual time → fiscal deficit. लॉटरी दे दे कर लोगों को लुभाते रहे तो सरकार का वित्तीय घाटा बढ़ जाएगा - Post-Demonetization, digital transactions ↑ but then again ↓ so, punitive measures = :- (सजा देने से लोग सुधरते नहीं
 Household	Secure, difficult to steal, time, convenience, financial inclusion. सुरक्षित, चोरी करना मुश्किल, समय, सुविधा, वित्तीय समावेशन	- Digital divide, Low financial literacy- notion of security with holding physical currency. सब के पास डिजिटल उपकरण और डिजिटल भुगतान की जागरूकता/साक्षरता नहीं है - Cyberfrauds, Card cloning, service fees on card payments. जालसाजी/धोखाधड़ी
 Businessman	Homework	homework

10.16.1 Conclusion: Cashless Economy (निष्कर्ष)

- Digital payment is not a panacea, nor is cash all bad. For a developing country like India, “Less cash” economy better than “Cashless” economy. डिजिटल भुगतान को राम-बाण / सर्वरोगहर औषधि मानना गलत. नगदी रुपया हमेशा ही खराब चीज है, ऐसा सोचना भी गलत। भारत जैसे विकासशील देश के लिए 'नगदी-रहित' बनना उपयुक्त नहीं। किंतु, नगदी का प्रयोग 'कम' करने की जरूरत अवश्य है.)

10.16.2 Mock question for Mains/ESSAY

1. **Essay:** The tenability of work from home. घर से काम- कितना मुनासिब/तर्कसंगत?
2. **Essay:** Money is not the root of all evil, greed is. पैसा नहीं, लोभ सभी बुराईओ का मूल है.
3. **(GSM2: e-governance)** In the aftermath of the Corona pandemic, there has been greater thrust towards using electronic mode for doing any activity from home. In this regard, enumerate the charms and challenges of following in 150 words each
 - A) Virtual Parliament (वर्चुअल संसद)
 - B) Virtual Courts (वर्चुअल न्यायालय)
 - C) E-Diplomacy (ई-कूटनीति)
 - D) E-Learning (ई-शिक्षा)
4. **(GSM3)** In 2020, People's Bank of China started experimentation on Central Bank Digital Currency (CBDC). Examine critically, the charms and challenges of such initiatives for Indian monetary system. 250 words. चीन का 'केन्द्रीय बैंक डिजिटल मुद्रा' प्रयोग. भारतीय मौद्रिक प्रणाली के लिए, इस तरह की पहल के आकर्षण और चुनौतियां की समीक्षा कीजिए
5. **(GSM3)** “While regulatory clearance to cryptocurrencies can open Pandora’s box, the underlying blockchain technology holds panacea for various areas of governance and economy”. Explain in context of India. 250 words. क्रिप्टो मुद्रा को अनुमति देने से विनाश की परिस्थिति का निर्माण, किन्तु अंतर्निहित ब्लॉकचेन टेक्नोलॉजी प्रशासन और अर्थतंत्र के लिए रामबाण इलाज बन सकती है.
6. **(GSM3)** Explain these two terms with respect to ‘less cash economy’ (‘कम नगदी वाले अर्थतंत्र’ के परिपेक्ष्य में): (1) MDR (2) Interoperability. (150 words)
7. **(GSM4)** Educational institutions play an important role in inculcating values in students. Examine the ways in which ‘E-Learning’ amplifies and diminishes that role. विद्यार्थीओमें मूल्यों का सिंचन करने की शैक्षणिक संस्थानों की भूमिका को ई-शिक्षा कितना मजबूत और कमजोर करती है? समीक्षा कीजिए।
8. **(GSM4: CASE Study)** Phulmati Devi visited Ujjwal Bank to withdraw money from her mother Lajmati Devi’s bank account. She claimed, “my mother is 100 years old, and unable to come in person, due to severe illness. So, she has sent me on her behalf.” But, Cashier refused to give money. He insisted for physical verification that mother Lajmati Devi is indeed alive & wishes to withdraw money. Next day, Daughter Phulmati placed her mother on a cot and dragged cot to the bank (बूढ़ी माँ को चारपाई पे लिटाकर, बेटी चारपाई घसीटते हुए बैंक तक आई). A bystander shot the video, which became viral on social media, drawing much criticism of the public against the bank's apathy towards poor people. (गरीबों के प्रति उदासीनता). As the chairman of Ujjwal Bank, how will you tackle this crisis and prevent its recurrence in future? 250 words (इस बैंक के चेयरमैन की भूमिका में आप इस संकट से कैसे निपटेंगे और भविष्य में इसकी पुनरावृत्ति को कैसे रोकेंगे?)

 **Next Handout:** Pillar1A2: Monetary Policy: CRR, SLR, Repo etc.

Pillar1A2: 🧠 Money Supply (M0-M4) & Monetary Policy- CRR, SLR, Repo

Previous Years' official UPSC MCQs also given in this handout. You can see that UPSC is not going into microscopic details of RBI's Operational/technical guidelines. Very simple-broad-overview type MCQs asked.

So, 🧠 Donot live in 🧠 imaginary fear that.... कल्पनिक डर में मत जियो के ...

⇒ Inexperienced Pvt Mock Test-walla asking random/technical Qs so I must do PHD 🧠🧠

⇒ EconomicTimes / Financial Express/ Hindu-BusinessLine columnist are writing long winded columns on RBI's Operation Twist or TLTRO so I must do PHD 🧠🧠

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11 MONEY'S DEMAND, SUPPLY & CREATION

11.11 DEMAND OF MONEY: LIQUIDITY PREFERENCE THEORY (तरलता अधिमान)

British Economist John Maynard Keynes (Book: *The General Theory of Employment, Interest and Money*, 1936) noted that people prefer to keep a part of assets in liquid form (cash money) with 3 motives:

1.  **Transaction motive (संव्यवहार उद्देश्य):** For using money as a medium of exchange e.g. for buying daily milk, vegetables and fruits.
2.  **Precautionary motive (एहतियाती):** To protect against sudden / unforeseen expenditure e.g. medical emergency or impulsive purchase during a holiday trip.
3.  **Speculative motive (सट्टा-उद्देश्य):** Investors hold cash to make the best use of any investment opportunity that arises later e.g. waiting for gold / land prices to fall, then "I will use my cash to buy it".
Also known as "Asset Demand of Money".

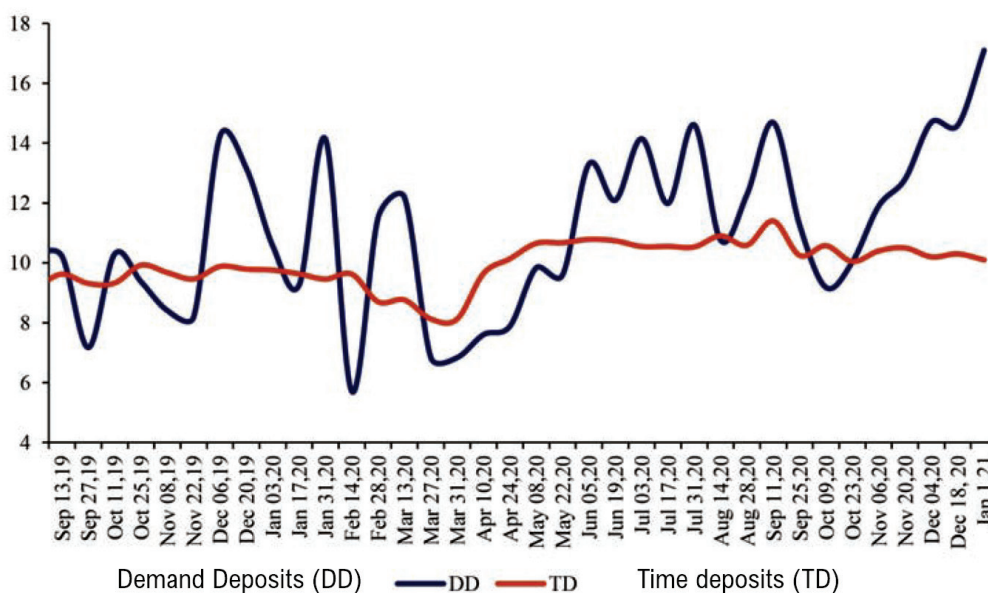
The amount of money held in cash form **vary inversely with interest rates**. If higher interest available in Bank Deposits, Bonds etc. → people would invest money there, instead of keeping money in liquid form (cash).

11.12 SUPPLY OF MONEY (मुद्रा की पूर्ति)

 Time Liabilities of a Bank (FDRD) समय / मीयादी देयताएँ	 Demand Liabilities of a Bank (CASA) मांग देयताएँ
- Fixed deposits, Cumulative/ recurring deposits, Staff security deposit etc. - Bank legally not required to pay customer before maturity. But may pay after deducting penalty/ interest.	- Current Account, Savings Account, Demand Draft - Overdue balance in Fixed Deposits - Unclaimed deposits.
Public parks more money here, because better returns / higher interest rates.	LESS
LESS	More liquid because easily convertible into cash on demand.

⇒ Bank deposits suddenly  in the aftermath of Demonetisation-2016 (because the public was required to deposit banned notes in their bank account). However, afterwards the growth of bank deposits has fallen.

⇒  ES21: Corona-2020: Initial months of lockdown the growth of (demand) deposit   because people withdrew money in panic / precautionary motive. Although in the later months → Unlock down and normalcy →   Quantity of deposit. तालाबंदी के शुरुआती महीनों में लोगों ने एहतियाती कारणों से बैंकों से अपनी डिपॉजिट निकाली हालांकि परिस्थिति सामान्य होने पर, बाद के महीनों में वापस बचत की मात्रा में बढ़ोतरी होने लगी है



? Which of the following is not included in the assets of a commercial bank in India? (Prelims-2019)

- (a) Advances (b) Deposits (c) Investments (d) Money at call and short notice

11.12.1 Measures of Money Supply (मुद्रा आपूर्ति के परिमाण)

- Money supply means the total amount of money in an economy at any given time.
- Money supply plays a crucial role in the determination of 1) price level (=inflation) and 2) interest rates on deposits & loans. मुद्रा की आपूर्ति महंगाई दर और ब्याज दरों पर असर करती है
- RBI measures the money supply through indicators: M0, M1, M2, M3, M4

Table 1: *CU: Coins & Currency with Public

Measure संकुचित, व्यापक		*CU	Commercial Banks		Post Office Savings Bank		Liquidity तरलता	Qty मात्रा
			Demand Deposits (CASA)	Time Deposits (FDRD)	Demand Deposits (SA)	Time Deposits		
Narrow Money	M1	✓	✓	✗	✗	✗	☆☆☆☆	☆
	M2	✓	✓	✗	✓	✗	☆☆☆	☆☆
Broad Money	M3	✓	✓	✓	✗	✗	☆☆	☆☆☆
	M4	✓	✓	✓	✓	✓	☆	☆☆☆☆

- Self-Extrapolate e.g. $M3 = M1 + \text{Time deposits with commercial banks}$. (स्वयं से फार्मूला बनाइए)
- M3 is the most commonly used measure of money supply, also known as “**Aggregate Monetary Resources / Aggregate Money Supply**” (समस्त मौद्रिक संसाधन).
- In above formulas for money supply, we are only counting the “**NET Demand / NET Time deposits**” i.e. only public deposits in bank. We are not counting interbank deposits i.e. one commercial bank’s deposit in other commercial banks. एक बैंक से दूसरे बैंक में पैसा डिपॉजिट किया हो तो उसे नहीं गिनते इधर
- **Liquidity**= ease of converting an asset into cash. Cash is the most liquid asset.
 - **Highly liquid assets** (अत्यधिक तरल संपत्ति): Gold, Demand deposits, G-Sec/T-Bill, shares/bonds of reputed companies. तुरंत खरीदार मिल जाते हैं इसलिए अपनी संपत्ति को आप नगदी धन में आसानी से परिवर्तित कर सकते हैं
 - **Relatively illiquid assets**: Home/Real estate, Paintings/Sculptures etc. Because difficult to find buyers at right price instantly. खरीदार आसानी से नहीं मिलता इसलिए इन संपत्तियों की तरलता थोड़ी कम है
- **Liquidity injection / infusion** (तरलता अन्तःक्षेपण) refers to phenomenon when RBI buys Bank/NBFCs’ G-Sec/T-bill/financial assets to provide them with cash.

📊❓ If you withdraw Rs. 1,00,000 in cash from your Demand Deposit Account at your bank, the immediate effect on aggregate money supply in the economy will be ___. (UPSC-Prelims-2020)

- [a] to reduce it by ₹ 1,00,000 [b] to increase it by ₹ 1,00,000
[c] to increase it by more than ₹ 1,00,000 [d] to leave it unchanged

11.13 📊📉📈 FACTORS AFFECTING MONEY SUPPLY [M1, M3]

M1, M3 Money Supply will ⬆️ when:

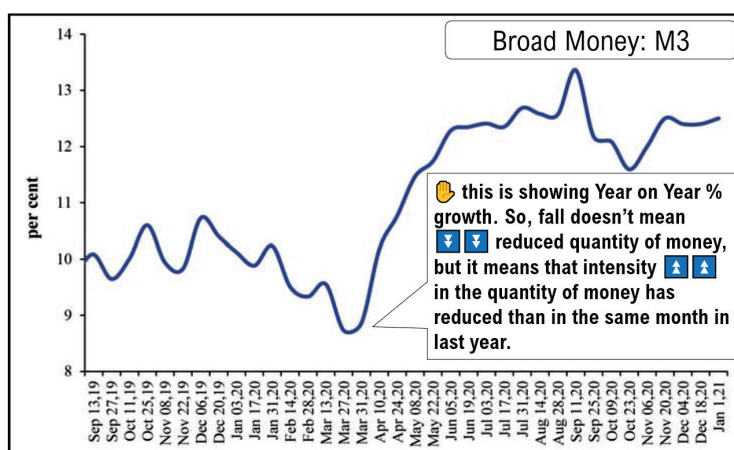
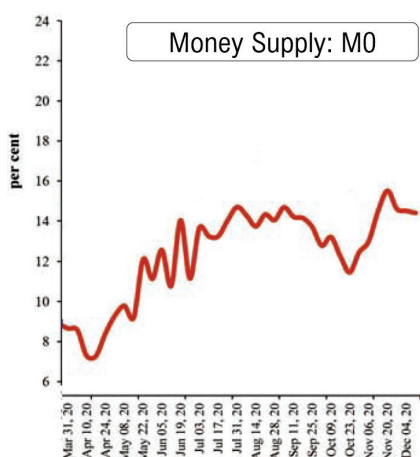
- When Money multiplier and / or Velocity of money ⬆️.
- When RBI's asset side ⬆️ e.g. Government borrowing more from RBI using G-sec or increase in RBI's foreign securities. (is there are limit on how much money can Government borrow? Ans. YES. We'll see in Pillar2 → FRBM Act.)
- With the ⬆️ in banking penetration, financial inclusion (वित्तीय समावेशन)
- Boom period, Whenever loan demand ⬆️ (तेजी का माहौल लोन ज्यादा लिए जा रहे हो)
- When RBI adopts Cheap / Easy / Dovish / Expansionary monetary policy to combat deflation.

Table 2: Following also affect money supply (given in NCERT, not greatly imp so don't lose sleep)

Currency Deposit Ratio (CDR)	- = ratio of (money held by the public) divided by (public's deposit in banks). - For example, cdr ⬆️ during the festive season as people convert deposits to cash balance for meeting extra expenditure.
Reserve Deposit Ratio (RDR)	- = (A commercial bank's vault cash+its deposits with RBI such as CRR) divided by (public's deposit in banks). - Vault Cash= banks keep some money with themselves for meeting day to day withdrawal by depositors & for misc. business expenses.

11.13.1 📊📉📈 Corona-2020 impact on Money Supply M0 and M3 as per 📊📈 ES21

Note: There may be 500 other factors as well affecting these indicators but gives poor:cost benefit learning all those things from MCQ point of view. वास्तविक जिंदगी में और भी 500 कारकों के चलते इन आंकड़ों पर असर होता है लेकिन उन सब की पंचात करने बैठे तो परीक्षा के लिए उपयोगी नहीं # ⌚📅 थोड़ा-पढ़ो-आगे-बढ़ो



M0	⇒ Corona-2020: M0 increased mainly ⬆️ because: ⇒ To keep the ₹:\$ exchange rate stable, Reserve Bank's ⬆️ purchases (of Dollars & other Foreign Currency) from Authorised Dealers (ADs) in the Foreign Currency Exchange Market → ⬆️ ₹र Currency supply in the market. [More in Pillar#3: Balance of Payment] रुपया और डॉलर की विनिमय दर
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	को स्थिर रखने के लिए रिजर्व बैंक ने बाजार से डॉलर करी दे और सामने रुपए मुहैया कराए जिसके चलते आरक्षित मुद्रा (M0) की मात्रा में बढ़ोतरी हुई - पिछले साल की तुलना में
M3	⇒ M3 = Coin and currency with public + Demand deposits with banks + Time deposits with bank ⇒ Corona-2020: overall M3  due to expansionary monetary policy of RBI (CRR , Repo ) etc) रिजर्व बैंक की विस्तारवादी नीतियों के चलते बढ़ोतरी हुई - पिछले साल की तुलना में

11.14 CREATION OF MONEY (मुद्रा का निर्माण)

M0 / Reserve Money / Government Money / High Powered Money (उच्च शक्ति मुद्रा) is issued under RBI Act, by RBI's ISSUE DEPARTMENT, with condition that ISSUE DEPARTMENT's assets must match its liabilities.

Assets of Issue Department (परिसंपत्तियाँ)	Liabilities of Issue Department [M0]
1. Rupee coins [RBI 'buys' coins & ₹1 notes from Govt and circulates it as the 'Agent of govt'] 2. Gold coins [Min. ₹ 200 crores] सोने के सिक्के 3. Gold bullion [Min. ₹ 115 crores] सोने की ईंटे 4. Foreign Securities, incl. IMF [Earlier Min. ₹ 400 crores but Post-1995 no such requirement.] 5. (Indian) Govt. Securities [through which Govt borrows money from RBI & returns Principal + Interest at later date] सरकारी प्रतिभूतियाँ	Total Currency notes (& coins & ₹1 notes) in circulation, which consists of: 1. Held by Public 2. Held by other Banks in "Vault cash" (i.e. amount kept by banks for day to day Operations.) 3. Other Deposits in RBI (of Public*, Banks & Governments)

* such as PM Garib Kalyan Yojana (2016) under which Blackmoney holder was required to deposit 25% of his blackmoney in RBI for a lock-in period of 4 years. More in Pillar#2

 **Moral outrage:** Where is the repo, where is the profit, how can ₹1 coin be on asset side as well as liability side? How did RBI print money before "THIS" to acquire gold? ++500-jaat-ke-doubts.
My Ans. Please refer to Viral Kohli's wedding snapshot in the PowerPoint.

11.15 MONEY MULTIPLIER (मुद्रा गुणक)

RBI's Cash Reserve Ratio (CRR) leads to **Fractional Reserve Banking & Credit Creation** by the commercial banks, which creates money multiplier effect as following:

Table 3: this process is called 'Fractional Reserve Banking & Credit Creation'

High Powered money (M0) = 100	Asset Side	Loaning	10% Reserve ('R')
Bank#1	100	90	10
Bank#2	90	81	9
Bank#3	81	72.9	8.1
Bank#..	..	..	..
Total Money (here M3)	Total sum = ₹1000**		

$$\text{Money Multiplier} = \frac{\text{Stock of Total Money (M3)}}{\text{Stock of High Powered money (M0)}} = \frac{1000}{100} = 10$$

**  **Moral Outrage:** How can loan and CRR be counted in M3? **Ans.** They're not counted. But, before money went into loans & CRR, it was sitting on deposit side. M3 counts deposits.
#Kohli-wedding-snapshot.

- Every "R" reserve generates "1/R" new money. Here, 10% reserve (R) generated $1/R = (1/(10\%)) = 10x$ times the high-powered money.

- 4% reserve ratio will generate $[1/(1/4\%)] = 25x$ times (in theory), however in reality the multiplier may be lower, due to poor banking penetration.
- In a functional economy, money multiplier is always greater than 1.
 - o & It directly improves with reduction in CRR.
 - o & It indirectly improves as economy develops, consumption / loan demand increases, banking penetration, digital economy/less-cash economy etc.
 - o In 1960s = less than 2x, 90s = more than 3x, At present = more than 5x.

11.15.1 ⚡ Money Multiplier Before Corona as per ES20

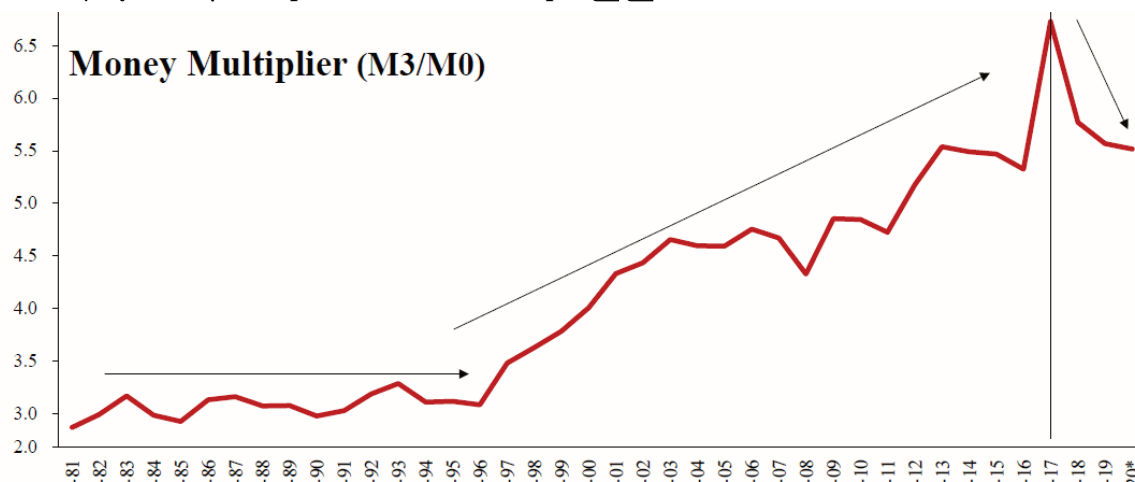
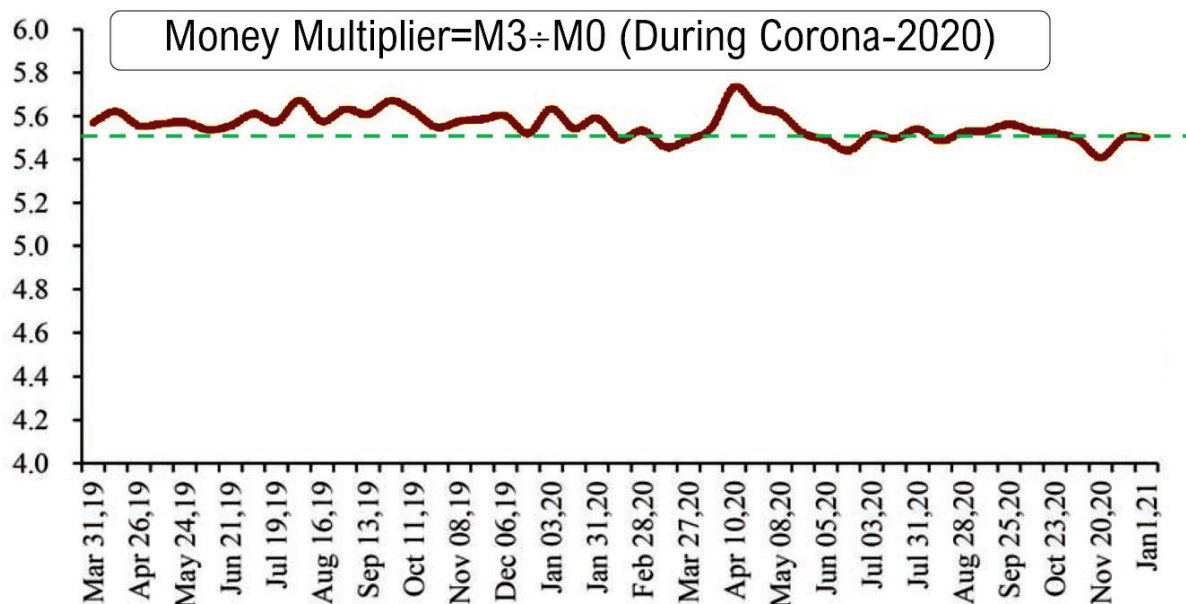


Figure 1: source- Economic Survey 2020, zigzag pattern means 'not increasing steadily'.

- ES20: Between mid-1990's to 2016-17: Money multiplier (measured as a ratio of M3/M0) was mostly $\uparrow$. But 2017-18 onwards: Money Multiplier is $\downarrow$. Could be attributed to the lack of growth in loaning activities & slowdown in economy.

11.15.2 ⚡: Corona-2020 impact on money multiplier as per ES21



⇒ Money Multiplier = M3 divided by M0

- ⇒ Money Multiplier mostly $\uparrow$ increasing from 1980s onwards up to 2016-17, has however been declining $\downarrow$ since then. multiplier 5.6 (2019) but $\downarrow$ to 5.5 (2020) = Money Multiplier didn't grow / remained suppressed / muted / Impaired in Corona-2020. Reasons? → कोरोना के दौरान मुद्रा गुणांक दबा हुआ या मूक रहा क्योंकि:
- ⇒ 🧐 Slowdown in economy, demand for loans $\downarrow$ → so, bank deposited large amount of money with RBI under reverse repo. लोग लोन में पैसा लेने के लिए कमाए इसलिए बैंकों ने अपनी अतिरिक्त राशि रिजर्व बैंक में ही रिवर्स रेपो रेट के स्वरूप में जमा करा दी
- ⇒ 🧐 if banks continuously loaned ₹ to households & business firms then M3 would grow thru 'zigzag' lending-deposit activity from One bank account to another bank account यदि वह पैसा रिजर्व बैंक में रिवर्स रेपो रेट में डालने की वजह, बैंक वाले लोन में घुमाते तो मुद्रा गुणक में बढ़ोतरी दर्ज होती, लेकिन कोरोना के चलते लोगों में लोन की उत्सुकता कम देखी गई
- ⇒ 🧐 Then $\square\square$ ES21 tried to entered in technical commentary that If we ignore the Reverse repo rate money parked in RBI then "Y" thing would have happened etc but Poor cost benefit for exam.
- # ⌚ थोड़ा-पढ़ो-आगे-बढ़ो Even if some inexperienced to private quizmaster setup faltu MCQs from it.
- ⇒ 🧐 if people keep more portion of cash in hand and less in banks-deposits then Money multiplier will not improve. Corona= $\uparrow$ rise in cash:deposit ratio, as people drawing cash from bank account fearing lockdown / precautionary motives [At Least, In the initial months of lockdown]. तालाबंदी के शुरुआती महीनों में लोगों ने एहतियाती कारणों से बैंकों से अपनी डिपॉजिट निकाली इस कारण भी, मुद्रा गुणक में बढ़ोतरी नहीं हो पाई.

$\square\square$? Money Multiplier in an economy increases with _ _ _ ? (UPSC-Prelims-2019)

- A. Increase in the cash reserve ratio
- B. Increase in the banking habit of the population
- C. Increase in the statutory liquidity ratio
- D. Increase in the population of the country

11.15.3 🧐 Misc. topic: Velocity of Money Circulation (मुद्रा संचालन का वेग)



It is the average number of times money passes from one hand to another, during given time period. e.g. you bought pen worth Rs.10 from shopkeeper, he uses same ₹10 note to buy tea from another shop, then same currency note performed function of 20 Rupees. कितनी बार एक नोट एक हाथ से दूसरे हाथ में जाता है?

This "Velocity of money circulation" is affected by following factors:

- **Income distribution:** Money in the hands of poor people has higher velocity than the rich people.
- If more people borrow money for purchase → higher velocity. Hence developed countries => higher velocity, because people save less and spend more because of consumerist lifestyle and confidence in Government's social-security e.g. USA. (जब लोगों में बचत की भावना कम हो)
- Boom period in economy = more raw material purchase & hiring = higher velocity. (तेजी का माहौल)

—Other 500-jaat-ke permutation-combination-PHD = poor cost:benefit for exam

—What is its scene in Corona? Answer not given in $\square\square$ ES21 so no point in SELFPHD.

12 🧐 MONETARY POLICY (मौद्रिक नीति)

- [Definition] Monetary Policy is a macroeconomic policy (समष्टि आर्थिक नीति), designed by the central bank of a country, to manage money supply & interest rates. It helps shaping variables such as inflation,

consumption, savings, investment, and capital formation (मुद्रा-आपूर्ति व ब्याजदरो को नियंत्रित करके मुद्रास्फीति/मंहगाई, मांग/खपत, बचत, निवेश, पूंजी निर्माण को आकार देना).

- [Significance] Monetary policy plays an important role in price stability [inflation control], economic growth, job creation and social justice in any economy. (मंहगाई-नियंत्रण, आर्थिक वृद्धि, रोजगार सृजन, सामाजिक न्याय के लिए महत्वपूर्ण साधन)
- **Milton Friedman:** American economist whose research on monetary policy made this subject more popular, he also won a Nobel in Economics in this regard (1976).
- **Philip Curve:** Inflation $\uparrow$ = unemployment $\downarrow$ (and vice versa). मंहगाई बढ़ेगी तो बेरोजगारी घटेगी. मंहगाई कम होगी तो बेरोजगारी बढ़ेगी. (More in Pillar#4C)
- Therefore, stable & moderate inflation is good for the economy. (स्थिर व मध्यमस्तर मंहगाई अर्थतंत्र के लिए अच्छी)
- So, RBI tries to keep inflation with 2-6% Consumer Price Index (CPI: All India) using its bi-monthly monetary policy made by its 6- member statutory Monetary Policy Committee. (छः-सदस्यवाली वैधानिक समिति द्वारा द्वि-मासिक मौद्रिक नीति निर्माण करके रिजर्व बैंक मंहगाई दर को उपभोक्ता मूल्य सूचकांक के हिसाब से २-६% में नियंत्रित करने की कोशिश करता है)

12.11 MONPOLICY: QUANTITATIVE TOOLS (परिमाणात्मक साधन)

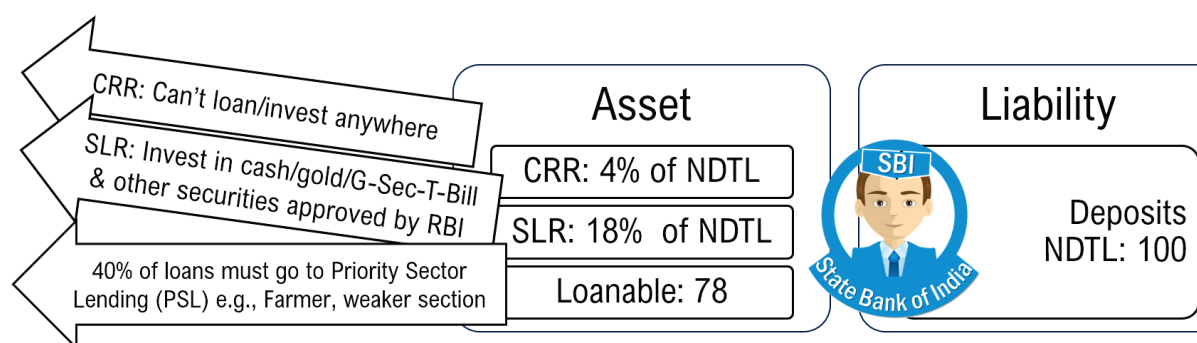
Also known as (aka) **General or Indirect Tools** as they affect the entire economy, and not just a particular sector. (सामान्य या अप्रत्यक्ष उपकरण क्योंकि यह किसी एक क्षेत्र-विशेष को नहीं किंतु पूरी अर्थव्यवस्था को असर करते हैं)

12.11.1 Statutory Reserve Requirements: CRR, SLR (Fight inflation: $\uparrow$, deflation: $\downarrow$)



Figure 2: depositors waiting in a queue & demanding- हमारा paisa wapas kro, ABHI KE ABHI!

- CRR and SLR are collectively known as “**Variable Reserve Ratios**” or “**Statutory Reserve Ratios**” (परिवर्तनीय / वैधानिक आरक्षित अनुपात)



CRR	SLR
Full form: Cash Reserve Ratio (नकद कोष अनुपात)	Full form: Statutory Liquidity Ratio (वैधानिक तरलता अनुपात)
Banks must keep this much deposits (or balance) with RBI. RBI doesn't pay interest on this deposit, except in extraordinary circumstances like 1999's	Banks must keep this much deposits in liquid assets such as cash, gold, G-Sec, T-Bills, State Development Loan Bonds and other securities

CRR	SLR
Banking slowdown. (बैंक ने जमाकर्ताओं से हांसील की हुई रकम का कुछ हिस्सा रिजर्व बैंक में जमा करना पड़ेगा।)	notified by RBI. (बैंक ने जमाकर्ताओं से हांसील की हुई रकम का कुछ हिस्सा, रिजर्व बैंक द्वारा मान्य तरल परिसंपत्ति में निवेश करना होगा)
Bank earns no profit / interest, as such.	Some profit may be involved. (मुनाफा हो सकता है)
- CRR: first suggested by the British economist J.M. Keynes & first introduced in US Federal Reserves (=Central Bank of USA). - Mandated under RBI Act, 1934	Mandated under Banking Regulation Act, 1949 (बैंकिंग विनियमन अधिनियम के अनुसार इसे लागू किया जाता है)
RBI can fix any amount of CRR, legally there is no minimum or maximum limit. Corona-2020: it was 3% of Net Demand & Time Liabilities of a bank (NDTL: निवल मांग और समय देयताएँ) 2021-May: it'll be gradually increased to 4%	Legally, SLR can't be more than 40%. Presently it is 18.00% of NDTL.
- All Banks must keep CRR. (बैंक के लिए अनिवार्य) - However, RBI may prescribe separate % norms/slabs for Regional Rural Banks (RRBs) and Cooperative Banks. <i>More in 📖 Pillar 1B1: classification of Banks</i>	Similar to left cell of this table.

👉 Difference between NDTL, ODTL, Total DTL? = NOT IMP4IAS. If you want to satisfy your curiosity, do google search yourself but I don't think it as best use of my/your time. #ARJUN-Fisheye

- CRR-SLR are counted on fortnightly basis. If not maintained, bank will have to pay penalty interest rate to RBI. Penalty rate (जुर्माना) is linked with **Bank Rate**.
- CRR-SLR ensure monetary stability of India through **two primary functions**:
 - 1) CRR assists in money multiplier effect,
 - 2) CRR-SLR provide buffer/protection during a **Bank Run** (बैंकों में से जमाराशि वापस लेने की दौड़) i.e. an emergency when every depositor wants to pull out money from his bank account at once, mainly due to fake news / rumors.
- While in theory CRR/SLR can be used for inflation control but RBI primarily relies on REPO Rate (=its Policy Rate) to combat inflation, and not CRR/SLR. (हालांकि, महंगाई नियंत्रण के यह मुख्य साधन नहीं है)

12.12 🏠 📊 🔄 31 CRR, SLR: DEVELOPMENT IN RECENT YEARS

12.12.1 🏠 📊 🔄 31 (2016): Incremental CRR during Demonetization (नोटबंदी में वृद्धिशील सीआरआर)

- During demonetization (2016-17): public required to deposit the banned ₹500-1000 ke notes in banks. So, banks' deposits increased drastically.
- During that time, RBI temporarily prescribed **Incremental CRR**.
- 👉 What it was? how did it work? **Ans.** 6 years old technical topic for Prelims-2021. Very poor cost benefit in preparing # 🏠 थोड़ा-पढ़ो-आगे-बढ़ो.

12.12.2 🏠 📊 🔄 31 (2020-Feb) CRR Exemption for 5 yrs, depending on loans (सीआरआर में छूट)

2020-Feb: RBI instructed the banks:

- ⇒ Whatever new (retail) loans you give for (1) automobiles (2) residential housing / home mortgages. (3) MSMEs [After 31/Jan/2020 upto 31/Jul/2020]

- ⇒ You can subtract that much loaned ₹ amount from deposits while computing cash reserve ratio (CRR) for the next five years (from the date when the loan was given or other technical norms, which are not important). (वाहन, मकान और छोटे उद्योगों को कर्ज दिया तो सीआरआर में बैंक को छूट मिलेगी)
- ⇒ In other words, if a bank gives more loans to the above 3 sectors, it'll have to keep $\downarrow$ CRR $\rightarrow$ $\uparrow$ loanable funds $\rightarrow$ profit to the bank. And more loans $\rightarrow$ more business activity $\rightarrow$ economic growth for the country.

12.12.3 🐼📊🔗📅 (2020-Mar) CRR $\downarrow$ from 4% to 3% in 🇮🇳 Atmanirbhar Bharat



Figure 3: कोरोना महामारी से जुड़ रही अर्थव्यवस्था पुनर्जीवित करने के लिए सीआरआर में कटौती करना मंगता है।

- To revive Indian economy after Corona, RBI made certain changes in its monetary policy during March-April-2020 period.
 - Parallely, Govt also took announced relief in tax-filling, free-food to poor etc.
 - Collectively, Modi labelled these actions of [RBI + Government] = “**Atmanirbhar Bharat Economic revival package**”. 📄 More in Pillar#4C.
- ⇒ **2020-March:** RBI announced 100 basis points (bps) cut (=1%) cut in CRR. so Earlier 4%-1%=3% CRR for a period of 1 year (upto 2021-March). This will $\uparrow$ the loanable funds available with the banks.
- ⇒ 2021: now moving towards economic recovery, enough loanable funds in banks available so, RBI ordered restoration/ $\uparrow$ of CRR in two phases: 3.5% (2021: March2May) $\rightarrow$ 4% (2021-May) वापस बढ़ेती

12.12.4 🐼📊🔗📅 (CRR Technical things NOTIMP)

Following technical operational aspects of CRR not imp / poor cost benefit in studying for exam

- What is Automated sweep-in and sweep-out (ASISO) facility? NOTIMP
- What is Flexible Automated Option for Managing CRR? NOTIMP
- 🖐️ Further, Banks are required to calculate CRR on a fortnightly (15 days) basis. They have to maintain at least 90% of that amount in CRR on daily basis. RBI also $\downarrow$ minimum daily CRR balance maintenance from 90% to 80% upto 2020-June
- Above type of information is not really important for the scope of civil service exam. So, don't lose sleep if some idiotic private Mocktest quiz master framing MCQs like this.

📅🔗? Cash reserve ratio refers to ____ . (UPSC-CDS-i-2020)

- the share of Net Demand and time liabilities (NDTL) that banks have to hold as liquid assets
- the share of NDTL that banks have to hold as balances with the RBI
- the share of Net demand and time liabilities that banks have to hold as part of their cash reserves
- the ratio of cash holding to reserves of banks

12.12.4.1 📊🔗📅 SLR reduction to 18% of NDTL

In 2018, RBI notified that SLR will be gradually reduced to 18% of NDTL in following phases

Year	January 5, 2019	April 13, 2019	July 6, 2019	October 12, 2019	January 4, 2020	April 11, 2020 onwards
SLR	19.25%	19.00%	18.75%	18.50%	18.25%	18.00%

 Find correct statements about SLR: (UPSC-CDS-2011-II)

1. To meet SLR, Commercial banks must keep cash only.
2. SLR is maintained by the banks with themselves.
3. SLR restricts the banks leverage in pumping more money into the economy.

Answer codes: (a) 1, 2 and 3 (b) 1 and 3 (c) 2 and 3 (d) only 2

 When RBI reduces SLR by 50 basis points which of the following is likely to happen? (UPSC-Pre-2015)

- (a) India's GDP growth rate increases drastically.
- (b) Foreign Institutional Investors may bring more capital into our country.
- (c) Scheduled Commercial Banks may cut their lending rates.
- (d) It may drastically reduce the liquidity to the banking system.

12.12.5    MonPolicy → Quant Tools → Rates → Bank rate (बैंक दर):

	Bank Rate	MSF	Repo Rate
Introduced in	RBI Act, 1934**	2011	2000
What is the % rate?	Since 2012: Bank Rate% = MSF%	MSF = Repo% + “x”%	Monetary Policy Committee decides
Who can borrow from the RBI?	Only banks		All clients of RBI: bank, non-bank, Union & State Govt
Collateral required?	**Yes and No	Bank can pledge securities from its SLR quota	Yes, G-Sec/T-bill. But not from SLR
Loan duration	Longer than repo	Short term usually overnight to 14 days	
Primary Utility?	Nowadays mainly for deciding penalty on errant banks	Emergency borrowing by bank, using their securities from SLR quota subject to certain limits.	Short term borrowing by all clients of RBI.

⇒ **RBI Act, 1934: “Bank rate is the standard rate at which RBI buys or **rediscounts** first class securities, bills of exchange or other commercial papers. (-NCERT)” *rediscounting basically means the “repo-walla game= RBI buys @x price, re-sells@y price where y>x”*

⇒ But, since the introduction of the Repo rate in the 2000s, the Bank rate has become a dormant tool (निष्क्रिय उपकरण =not frequently used by RBI for lending or by banks for borrowing).

⇒ So, **reference books/websites differ** in its present operational status e.g. some of them would say:

- Bank rate requires no collateral and is meant for long term loans.
- Bank rate accepts collateral which can be both GSec/T-bill as well as private companies’ securities.

So, in the real exam, it depends on which book/web source the examiner has copied the statement(s) and accordingly you’ve to take a judgement call in ticking the answer.

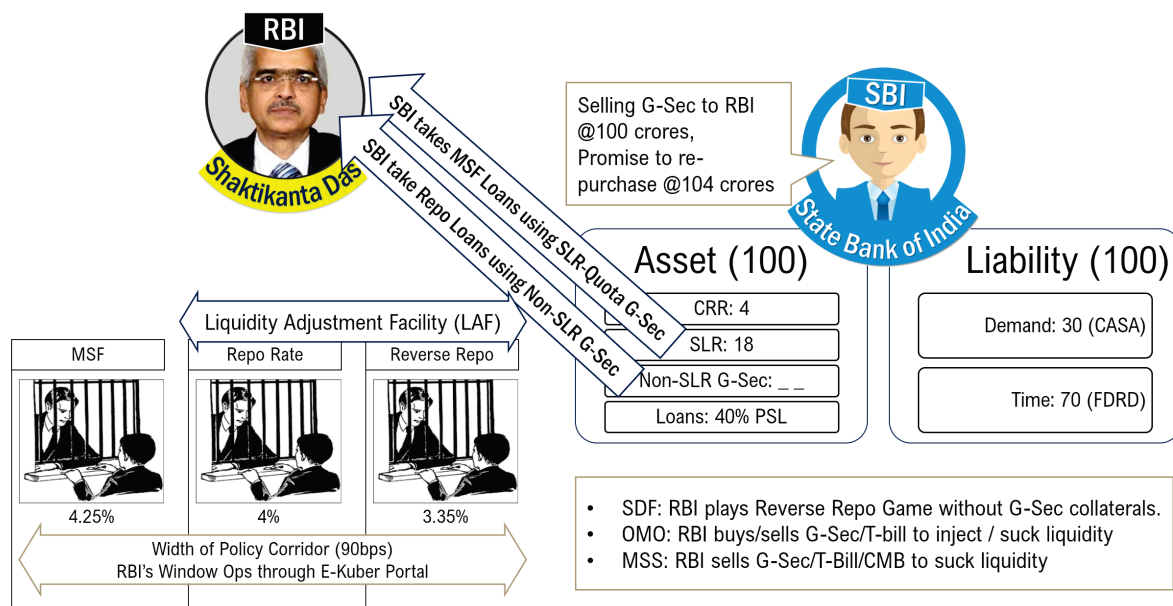
12.13    MONPOLICY → QUANT TOOLS → RATES → LAF REPO (2000)

RBI’s Liquidity Adjustment Facility (LAF, तरलता समायोजन सुविधा): has two windows:

* LAF-Repo Rate (रिपो दर/पुनः क्रय-अनुबंध)	* * LAF-Reverse Repo Rate (उलट रिपो/ पुनः क्रय-अनुबंध)
The Interest rate at which RBI lends short-term loans to its clients, keeping their G-Sec as collaterals. (रिजर्व बैंक अपने ग्राहकों को लघु अवधि के ऋण देता है। उसपर लागू ब्याज दर को रिपो दर कहते हैं। ग्राहक ने अपनी सरकारी प्रतिभूतियों को रिजर्व बैंक में गिरवी रखना पड़ता है)	It's the interest rate that clients earn when parking their surplus funds with the RBI for short periods, to earn interest. (ग्राहक अपना अतिरिक्त धन, रिजर्व बैंक में लघु अवधि के लिए जमा कर जो ब्याजदर कमाते हैं, उसे उलट-रिपो-दर कहते हैं)
Clients enter into an agreement with RBI to repurchase their G-sec at a future date at a (higher) pre-determined price. Banks can't pledge their SLR-quota-G-Secs for this borrowing. 🖐	Mechanism similar to Repo, RBI gives its G-Sec as a collateral.
- Repo also called 'Ready Forward Transaction'. - Repo Rate is our Policy Rate to control inflation. (मौद्रिक नीति दर)	Reverse Repo Rate = Repo% MINUS x%

Notes:-

- ⇒ **Repo** = RBI lends short term loans its clients, & demands G-Sec/T-bill as collateral. *Every place I've not mentioned T-bill, as it just blocks the speed of revision.*
- ⇒ **Market Repo** = Players other than RBI (such as bank, NBFCs) loaning short money to other Banks/NBFCs/Corporate Companies, and demanding financial securities (G-Sec/T-Bill/shares/bonds/commercial paper etc.) as collateral. What do those terms mean? **Ans.** Ref the table given in topic Operation Twist.



12.13.1 (2020) 🐼🐼:Repo Rate ⬇️ to cheapen the loans & revive economy



Figure 4: कोरोना महामारी से जुड़ा रही अर्थव्यवस्था पुनर्जीवित करने के लिए रिपो दर में कटौती करना मंगता है।

- ⇒ 2019: repo was in the range of 5-6%. Then, 2020-Corona → 🧐 Atmanirbhar Bharat RBI's monetary policies from Mar-April-May-2020 → REPO Rate ▼ to 4%
- ⇒ **Stance:** Accommodative. Means in the next meeting they will either ▼ repo or keep it unchanged. But no chance of ▲ the repo rate in next meeting.
- ⇒ Theoretically: ▼ repo → ▲ demand → ▲ inflation but, RBI expects that inflation will be under control because:
- ⇒ Monsoon will be normal so food prices (& resultant inflation) will be under control.
- ⇒ Corona-led Economic slowdown → demand ▼ → inflation should ▼.
- ⇒ Crude oil prices also under control due to Corona slowdown.
- ⇒ Thus, inflation is going to be remain under control. Therefore, large reduction in repo rate WAS justified to boost economic growth in 🧐 Corona.
- ⇒ **However, 2020-July-August:** CPI >6.5% which is above the 2-6% limit.
- ⇒ So, then, ideally RBI should ▲ the repo rate to combat inflation, but that will make the loans expensive and harm the post-corona economic revival. so the RBI kept the repo rate unchanged. (महंगाई से लड़ने के लिए अगर लोन महंगे कर दिए तो कोरोना महामारी पश्चात भारतीय अर्थतंत्र को पुनर्जीवित करना मुश्किल होगा इसलिए रिजर्व बैंक के दरों में कोई बदलाव नहीं किया गया)
- ⇒ Besides, the present inflation is caused by supply-side problems due to lockdown. Once the unlockdown progresses → supply ▲ → inflation ▼. so changes in the repo rate not required at present. (लॉकडाउन हटने पश्चात वैसे भी बाजार में चीज वस्तुओं की आपूर्ति बढ़ेगी तो अपने आप महंगाई काबू में आ जाएगी.)
- ⇒ To conclude, basically it is kept unchanged @4% from May-2020 afterward upto 2021-Feb when I'm writing this note.

12.13.2 (2020) 🧐 🧐 Reverse Repo Rate cut & Policy corridor Changed asymmetrically



Figure 5: sir, जब तक आप loan के लिए हॉ नहीं कहेंगे, हम आपको telemarketing calls करते रहेंगे!

	MSF	REPO	Reverse Repo	Total width
What?	Banks borrow short term funds from RBI by pledging G-Sec from SLR-quota	All clients borrow short term funds by pledging G-Sec. But, banks can't pledge SLR quota G-Sec	Clients park surplus funds in RBI to earn interest	Policy corridor (नीति गलियारा)
Before	R+25 bps	R%	R-25 bps	25+25=50bps
After	R+25 bps	R%	R-65bps*	25+65=90bps
2020-May	4.25%	4.00% (40bps cut than earlier rate)	3.35%	25+65=90bps

- ⇒ *Corona led economic slowdown → Loan demand ▼ → banks parking their excess funds in RBI to earn interest in the form of reverse repo rate. बैंक वाले अपना अतिरिक्त धन रिजर्व बैंक में डाल के बैठे बिठाये व्याज कमा रहे थे.
- ⇒ **By 2020-March:** banks parked ₹~3 lakh crores in RBI in Reverse Repo.
- ⇒ So, RBI has drastically ▼ the reverse repo rate to discourage such laziness of banks. ■
- ⇒ Benefit of reverse repo reduction?

- ✓ IF SBI offers 5.9% Fixed deposit interest rate to depositors, and parks it in the RBI reverse repo rate (3.35%) then SBI will actually make losses.
- ✓ So, RBI hopes SBI will now be 'forced' to give loans in a proactive manner (~~through SMS-spam, email-spam and unwanted telemarketing-calls~~)

Although as per ES21, Banks still continued to park their surplus funds in Reverse repo because there were not enough loan takers due to Corona slowdown.

12.13.3 (2020) Long Term Repo Operations (LTROs)

- ⇒ Usually, Repo loans are for short term borrowing from overnight to 14-days.
 - ⇒ But, 2020-Feb: RBI announced to conduct Long Term Repo Operations (LTROs: दीर्घ अवधि के रेपो ऋण) of 1 year and 3 years tenors.
 - ⇒ RBI will loan total ₹ 1,00,000 crore, in various rounds through E-Kuber platform.
 - ⇒ RBI's clients can apply to borrow a **minimum ₹1 crore or higher**.
 - ⇒ **Interest rate:** prevailing repo rate. Interest rate will be compounded annually. (वार्षिक रूप से चक्रवृद्धि ब्याज)
 - ⇒ This will loanable funds with banks → economic growth can be revived.
 - ⇒ MSF and (short term) repo lending will also be continued separately as per their own existing norms.
- LTRO doesn't aim to eliminate / replace them. (बाकी जो लघु अवधि के उपकरण है, वह भी जारी ही है)

Further operational guidelines, how it impacts the bond yields etc. = poor cost:benefit

12.13.4 Targeted Long Term Repo Operations (TLTRO: लक्षित दीर्घकालिक रेपो)

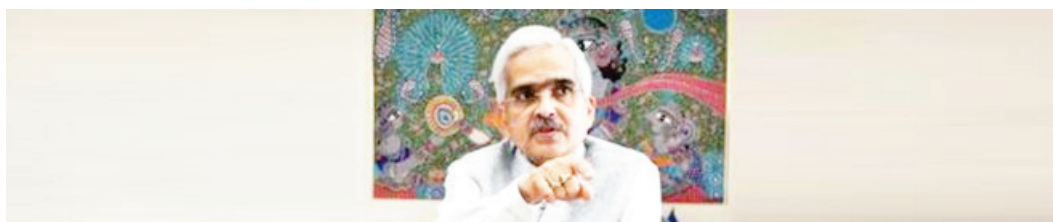


Figure 6: @Banks- jo Long term REPO loan diyaa hai uskaa certain % you must give to Bond Market

- ⇒ **Tenure?** upto 3 years
- ⇒ **Interest Rate?** FLOATING RATE linked with REPO Rate. Its exact formula? NOTIMP
- ⇒ **Total quantity?** First round 1.0= ₹1 lakh crore, round 2.0=₹50,000 crore and so on but figures NOTIMP.
- ⇒ If a bank borrows ₹₹ from this window → then
 - within "X" number of days,
 - bank must invest Y% of this borrowed money
 - in Bond market/ debt securities (such as corporate bonds/non-convertible debentures, commercial papers etc.) issued by "Z" borrower.
 - "Z" could be a Corporates, Mutual Funds, Non-Banking Financial Companies (NBFCs) and housing finance companies (HFCs).
- ⇒ Benefit? (इससे क्या फायदा होगा)
 - Debt securities are primary source of funding for NBFCs and HFCs. This measure will help them obtain funds to revive business. (गैर बैंकिंग वित्तीय कंपनियों को मदद मिलेगी)
 - Similarly, Mutual Funds and industrialists who need funds, will benefit.

12.13.5 TLTRO- Useless Doubts by novice students (बाबू-शोना /कच्चे खिलाड़ियों के फालतू प्रश्न)

1. Why would bank borrow ₹₹ in TLTRO if so many conditions are imposed on it? Ans. maybe the bank feels it will earn profit from such investment.

2. 🎓👉 Why would bank borrow ₹ in REPO rate (Short term) when TLTRO offering long term loans?
Ans. 1) depends on the requirement of the bank 2) TLTRO amount is finite e.g. first round total ₹1 lakh given. So, if a banker came late to RBI's shop and Jalebi stock was finished, it'll have to buy Samosa. इतनी सब पंचात किधर यूपीएससी पूछती है, कि आप फालतू में वक्त और दिमाग खर्च कर रहे हैं?
3. 🎓👉 How does TLTRO involve "flight of foreign investors & its impact on exchange rate & bond yield" etc.? Ans. Such long-winded-financial-cause-effect = no importance in UPSC, even though private mock-test-walla design useless MCQs from it. इतनी दूर की बीरबल की खिचड़ी अपने को पकाने की जरूरत नहीं है!
4. 🎓👉 I want to do PHD on this until Taimur grows up & gets married. Ans. Good luck! You keep doing that, but, I'm finished teaching this topic here. # 🤖 थोड़ा-पढ़ो-आगे-बढ़ो

12.13.6 🎓👉🏠🏦🏦 RBI's special or flexible liquidity window to help MF

Franklin Templeton Mutual Fund (MF) decided to stop / windup some MF schemes in India, because they couldnot generate good returns during the Corona crisis.

⇒ So, its Fund manager will liquidate (=sell off) the securities → return ₹ to investors.

⇒ Investors panicked because

- Fund manager did not give clear timelines about money refund.
- even if Fund manager tries to sell off shares/bonds, it is difficult to find buyers at the right price so MF-investors may lose money.
- Alleged financial scam angle. (कथित वित्तीय चोटाला)

⇒ **RBI reform?** Special or flexible liquidity window to help Mutual Funds

- From this window, banks borrow from RBI → Bank uses it to either
 - Give loans to Mutual Fund or
 - Use the ₹ to buy debt-securities from Mutual Fund

🎓👉 What is the total amount of funds in this special window? What is the tenure of loans here? Do banks need to pledge G-Sec to borrow? How much interest is charged? Ans. Low profile technical reform to a crisis affecting a small segment of financial market. # 🎓👉 Boycott-PHD

12.13.7 🎓👉🏠🏦🏦 MonPolicy → Quant Tools → Rates → MSF (2011)

- **Marginal Standing Facility (MSF: सीमांत स्थायी सुविधा)** is the Interest rate at which RBI lends short-term loans to Scheduled Commercial Banks (SCB) with their SLR-quota G-Sec as collaterals.
- MSF higher than Repo Rate. $MSF = Repo\% + 0.25\%$

12.13.8 MonPolicy → Quant Tools → * Rates- associated terms

- **Policy Corridor (मौद्रिक नीति गलियारा):** It's the width among MSF-Repo-Reverse Repo. Refer to reverse repo rate shortnote for more. इन सब उपकरणों के बीच की चौड़ाई
- **Window Operations:** LAF-MSF "windows" are operated through RBI's E-Kuber Core Banking Solution (CBS) platform.
- **(Uncollateralized) Standing Deposit Facility (SDF, स्थायी जमा सुविधा):** Banks parks funds in RBI for short-term to earn interest. No G-sec / collateral, unlike Reverse Repo. This helps RBI absorb excess liquidity for short term in situations like demonetization when RBI may not have enough G-Secs to pledge as collaterals. Urjit Patel Committee on Monetary policy (2013) proposed this, Budget-2018 agreed to amend RBI Act for this. But not yet implemented.

- **Tri-Party Repo (त्रि-पक्षीय पुनः क्रय-अनुबंध):** In ordinary repo, there are two parties- borrower vs. lender (RBI). In Tri-party Repo, there are 3 parties 1) borrowers 2) lenders 3) Tri-Party Agent (e.g. NSE or BSE) who, acts as an intermediary between the two parties to facilitate collateral custody, payment and guaranteed settlement. 2017: RBI issued guidelines → 2018: National Stock Exchange (NSE) started it, 2019: Bombay Stock Exchange (BSE) started it. **This is not a tool of Monetary Policy.** It is meant to help Corporate companies to borrow money from the market.
- **BPLR, MCLR, External Benchmarks, Teaser Loans etc:** Terms related to how individual banks decide their lending rates to borrowers. Ref: 📖 Pillar1B2- NPA
- **Liquidity Trap:** To be covered separately in 📖 Pillar-4Z: *Microeconomics*.

12.13.9 🐯📢📦 Market Operations (OMO, MSS): (Inflation → Sell G-Sec, Deflation → Buy)



Figure 7: Aloo Lelo, Pyaaz Lelo, G-Sec Lelo...

- Open Market Operations** (खुले बाजार की क्रियाएँ): RBI buys and sells Union & State Govts' securities to control money supply.
 - RBI buying= Money supply increased/liquidity injected in the market.
 - RBI selling = Money supply decreased/liquidity absorbed from the market.
- Market Stabilization Scheme** (बाजार स्थिरीकरण योजना): RBI sells special type of G-sec, T-Bill & Cash Management Bills (CMB) to suck excess liquidity. 🐾 How it works? How is it similar or different than OMO? Ans. NOTIMP. Very low profile thing for scope of UPSC. # 🐼 थोड़ा-पढ़ो-आगे-बढ़ो
- Sterilization / Forex Swap:** Their primary objective is to control the currency exchange rate volatility (e.g. \$1=₹65,70,80...). <More in 📖 Pillar#3 >
- Operation Twist (2019):** a special type of OMO. Explained in next segment.

📖🐯 MCQ. 'Open Market Operations' refers to: (Prelims-2013)

- a) borrowing by banks from the RBI b) lending by commercial banks to industry and trade
 c) purchase and sale of government securities by the RBI d) None of the above

📖🐯 MCQ. Which of the following would result in an increase in money supply in economy? (UPSC-Pre-2012)

- Purchase of G-Sec from the public by the Central Bank.
- Deposit of currency in commercial banks by the public.
- Borrowing by the government from the Central Bank.
- Sale of government securities to the public by the Central Bank.

Answer Codes: (a) 1 only (b) 2 and 4 only (c) 1 and 3 (d) 2, 3 and 4

📖🐯 MCQ. Which of them is/are part of Monetary Policy? (Pre-2015)

- Bank rate 2) Open market operations
- Public debt 4) Public Revenue

Answer Codes: (a) 1 only (b) 2, 3 and 4 (c) 1 and 2 (d) 1, 3 and 4

12.14 🐯📢📦🎵 MONPOLICY: QUANTITATIVE TOOLS → OPERATION TWIST

Before that, you've to be aware of some many basic concepts:

12.14.1 Security → Debt → G-Sec & Bonds (ऋण के लिए जारी की गई प्रतिभूतियां)

A 'Security' means a certificate/document indicating that its holder is eligible to receive a certain amount of money at a particular time. This could be a...

Table 4: प्रतिभूतियों के विभिन्न प्रकार

Borrower	 Govt	 Corporate (निगम)
Short term (less than 1 year) →	Treasury bills, Cash Management bills	Bill of Exchange, Commercial Papers, Promissory Notes.
Long term (1 year/>) →	G-Sec, Sovereign Bonds	Bonds / Debentures
Interest rate	Usually lower than Corporates' because risk is low	Depends on following factors →

12.14.2 Corporate Bonds: factors that determine its interest rate

If companies want to borrow money, they may issue bonds to investors. e.g. "Whoever buys this Reliance Bond worth ₹1000, we will pay him 9.40% interest rate per year and return the principal after 15 years." Usually the interest rate offered on such bonds depends on

Factor (कारक)	How it determines corporate bond interest rate
(Risk) Credit rating of company	Lower credit rating (e.g. CCC or D) → higher interest rate needs to be offered because risk of default is high. जब दिवालियेपन का जोखिम ज्यादा हो
Inflation	why/how: Ans. Ref:  Pillar1C → Inflation Indexed Bonds
Bank deposit interest rates	Higher the (Bank) deposit interest rate, higher bond interest rate needs to be offered to attract households to shift money from bank savings/FD to corporate bonds. (अगर बैंक जमाकर्ताओं को अच्छा ब्याज दे रहा है तो कंपनी ने ज्यादा ब्याज ऑफर करना होगा)
Yield on G-Sec	If G-Sec yield  , then corporate will have to offer even higher bond interest rate to attract the investors from G-Sec investment towards C-Bond investment.

12.14.3 Bond Yield (बांड में निवेश करने पर होने वाली आय या मुनाफा)

- ⇒ Bond yield is the profit an investor earns on a bond investment.
- ⇒ Suppose, Government issues a G-Sec or Bond: 8% annual interest, tenure: 1 year
- ⇒ Bhide Master invests ₹ 100. So, upon 1 year maturity he'll get ₹ 8 Interest + ₹ 100 Principal = ₹ 108. So his profit or yield will be= 8%
- ⇒ But suppose, before maturity of 1 year, Bhide Master urgently needs cash. So he sells ₹ 100 face-value bond to Jethalal at a discounted price of ₹90. पैसों की अचानक जरूरत पड़ने पर सस्ते दाम में किसी को बेच दे
- ⇒ Jethalal keeps the it till maturity → Government pays him ₹ 108. परिपक्व होने तक बेचे नहीं
- ⇒ So, for Jethalal the profit OR current bond yield to maturity is....

$$= \left(\frac{108-90}{\text{original investment of ₹ 90}} \right) * 100 = 20\%$$

12.14.4 Bond Yield ∝ 1/Price (सस्ते में खरीदा तो मुनाफा ज्यादा)

- ⇒ Bhide bought @100, his yield is 8%; Jetha bought @90, his yield is 20%.
- ⇒ Thus, Bond yield is **inversely related** to the current selling price of the bond in the secondary market.
- ⇒ If a bond's demand  → its selling price will  → bond yield  (Because of inverse relation)

12.14.5 📊📈📉 Bond yield: other factors affecting it (अन्य कारक)

- ⇒ If the economy is booming (तेजी), companies are making great profit, investors may sell bonds at lower prices in a hurry to unlock their money to invest it in shares of companies, because they think it'll get them more dividend. Then bond's current selling price in the secondary market ▼ → yield ▲.
- ⇒ If the economy is facing **recession** (Continuous decline in growth rate: मंदी) → companies will NOT make great profit → investors sell shares, and prefer to buy bonds hoping they'll get secured fixed interest. Then bond's demand ▲ in the secondary market → selling price ▲ → yield ▼.

12.14.6 🗣️📊📈📉 Operation Twist: why?

- ⇒ Commercial banks were reluctant to lend money to private sector companies because of the problem of Bad Loans /Non-Performing assets (NPA: More in 📊 Pillar1B2). दिवालियेपन की घटनाओं के चलते बैंक वाले निजी क्षेत्र की कंपनियों को कर्ज देने से डर रहे थे। आर्थिक वृद्धि और रोजगार सृजन के लिए यह अच्छी बात नहीं थी
- ⇒ If such companies could borrow money by issuing corporate bonds (at cheaper interest rate) → more factories, more jobs, more production, more GDP.
- ⇒ RBI decided to attack the third factor: "If the yield on long term G-Sec decreased, then automatically Corporate Bond interest rates could also decrease."

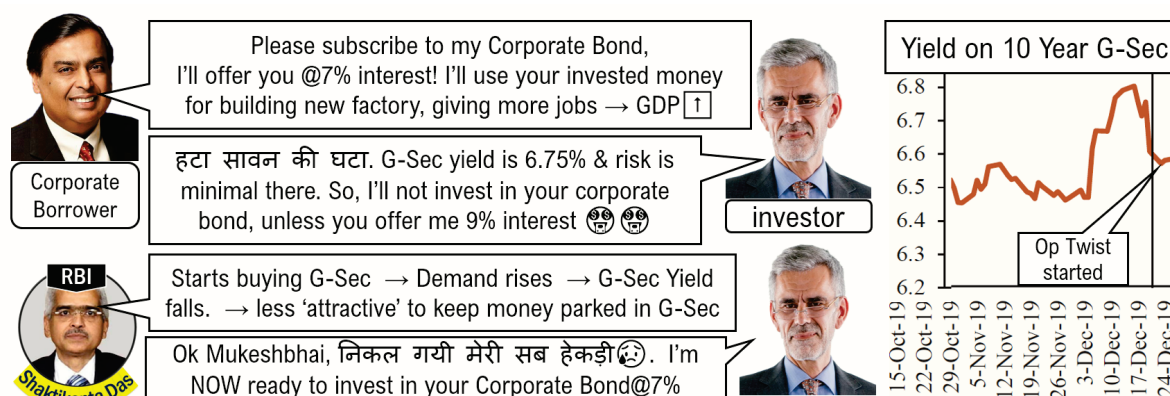


Figure 8: figures are only for illustration. No need to memorize

12.14.7 🗣️📊📈📉 RBI's Operation Twist: methodology (2019-Dec)

Since RBI's existing monetary policy tools had failed to make loans cheaper for corporates / boost the economy. So in 2019-Dec, RBI started a "special OMO" wherein:

RBI Sold→	shorter -term G-Sec (of 1 year & higher tenor) worth ₹10,000 crore
RBI Mrunal Bought →	bought longer -term G-Sec (of 10-14 years tenor) worth ₹10,000 crore (i.e. equal amount as above, so as to keep money supply unchanged.)

- ⇒ Since RBI started buying long-term G-Sec, their demand will ▲ → price will ▲ → yield is ▼. The 10YearGSec's yield lowered from 6.75% to 6.60%
- ⇒ And we've already learned, Corporate bonds are priced (benchmarked) keeping G-sec yields in mind.

So, Op Twist → Lower G-Sec yield means →

- ✓ Cheaper borrowing for Private sector Companies. Because
 - They can borrow money by issuing their (long term) C-Bonds at much cheaper interest rate than before.
 - When a private company meets a bank manager to borrow money, it can negotiate the loan price, "If your bank does not lend me money at this cheaper interest% then I will issue my own corporate bonds." → Even the bank lending rates for corporate loans could be reduced.

- ✓ Cheaper borrowing for Government. For reasons similar to above.
- ✓ Investor of long term G-Sec will feel discouraged to hold the G-Sec till maturity (10-14 years), He will try to sell it to another party/RBI and pull out his money, then he may park ₹ in a Corporate Bond / Bungalow / car / Goa-vacation etc. Thus, it helps boost the consumption → economy grows.

समज में आ गया हो तो बढ़िया है, नहीं तो रट्टा मारो जिंदाबाद (if not understood then memorize by Rot-learning)

1. 1961: "Operation Twist" was first used by the US Federal Reserve.
2. 2019: RBI used also done it. Officially called "Special Open Market Operation (OMO: खास किसिम की खुले बाजार की क्रिया) wherein the Central bank simultaneously buys and sells G-sec of varying maturities to adjust their yields. Which helps reduce interest rates on corporate bonds/debentures → easier to mobilize investment → factory expansion → jobs, GDP growth. (अगल अलग मियादी की सरकारी प्रतिभूतियाँ खरीद-व-बेच कर रिजर्व बैंक उनकी उपज को कम करता है, ताकि कॉर्पोरेट कंपनियाँ सस्ते ब्याज में पैसा बाजार से हासिल कर सकें, ताकि रोजगार और आर्थिक वृद्धि में मदद मिले)
3. Objectives of Op-Twist=
 - a. To make borrowing cheaper for Companies and Govt. कंपनीओ/निगमों और सरकार के लिए कर्ज सस्ता करवाना
 - b. It was NOT MEANT For fighting inflation. महंगाई से लड़ना इसका उद्देश्य नहीं है
4. It ensures better Monetary Policy transmission for economic growth. (because, earlier, simply reducing the repo rate has not helped much in making loans cheaper, for corporates. इससे पहले रेपो दर कम करने पर भी बाजार में लोन सस्ते नहीं हो रहे थे)
5. Net liquidity remains unchanged because ₹10,000 crore goes in and the same amount comes out of the market. सकल तरलता में कोई बदलाव नहीं क्योंकि जितना खरीदा, उतना ही बेचा है

👉📦🚫 Beyond this, further PHD on what/why/how = poor cost-benefit for MCQs. For example "The simultaneous sale of short-term bonds, on the other hand, helps push up short-term rates which had fallen below RBI's benchmark rate. This would not only correct the anomaly in the short- and long-term rates" All this is not important for the scope of competitive exams, even if inexperienced private mock-test-quiz-masters ask it. We need not lose sleep over each and every column.

12.14.8 👉📦🔪📦🚫 Bond Yield & Inverted Yield Curve: Concepts with poor cost-benefit for exam

1. Inverted Yield curve
2. Negative Bond Yield

👉📦🚫 very poor cost-benefit chasing these topics. Irrespective of how many times the Hindu columnists write about it and how many private mock test-walla make faaltu MCQs from it. #🙄 थोड़ा-पढ़ो-आगे-बढ़ो

12.15 🦁📢🚫 MONETARY POLICY: QUALITATIVE TOOLS (गुणात्मक साधन)

- ⇒ Quantitative tools (SLR, CRR, Repo etc.) control the 'volume' of loans. कर्ज की मात्रा को तय करते हैं
- ⇒ Whereas, qualitative tools (PSL, LTV etc.) control the "distribution" of loans to a particular sector of economy. गुणात्मक साधन कर्ज के वितरण को तय करते हैं
 - (e.g. agriculture) or particular segment of society (e.g. farmers, women, SC/ST).
- ⇒ Hence, qualitative tools also known as **SELECTIVE** (चयनात्मक) or **DIRECT** (प्रत्यक्ष) Tools.

12.15.1 🧑‍🏫 Moral Suasion (नैतिक दबाव / सलाह) & Publicity (प्रचार)

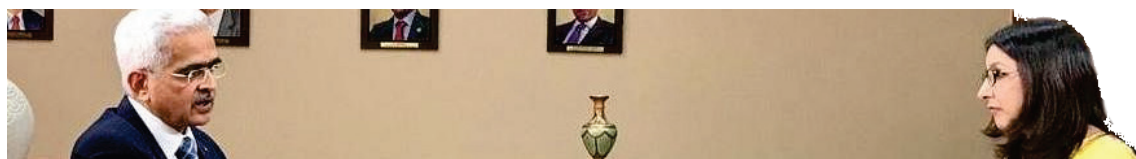


Figure 9: मैंने तो अपनी repo-दर कम कर दी लेकिन ये लालची बैंक वाले अपने loan-दर कम नहीं कर रहे, कम से कम मेरा लिहाज/सम्मान रखने के लिए भी उन्हें थोड़ा तो सस्ता करना चाहिए।

- Moral suasion meaning applying “Persuasion” without applying punitive measures. RBI governor tries this tactic via conferences, informal meetings, letters, seminars etc
- Example, RBI-Governor asking banks to transmit repo-rate cuts, open new branches in rural areas, spread financial literacy, give loans to farmers beyond PSL quota etc. Similarly, RBI Governor requesting CM or Finance Minister to control fiscal deficit & subsidy leakage to enhance the efficacy (प्रभावकारिता) of RBI’s monetary policy.
- **Publicity:** RBI governor could give media statement, speech during university convocation (दीक्षांत पदवीदान समारोह), memorial lectures... “Look I reduced repo rate but banks are not passing the benefit to customers...and xyz”. By doing so, he can create an effective public opinion which also pressurizes the banks to stop their thuggery.

12.15.2 ⚡🔒 Direct Action (सीधी कार्यवाही: क्योंकि लातो के भुत बातों से नहीं मानते)

- RBI can punish banks (and even non-banks) for not complying with its directives under RBI Act, Banking Regulation Act, Payment and Settlement Systems Act, Prevention of Money Laundering Act (PMLA), Foreign Exchange Management Act (FEMA). रिजर्व बैंक के दिशा निर्देशों का पालन न करने पर विभिन्न कानूनों में सजा/दंड
- 2019: RBI ordered the banks to have a “Clawback (लौटना)” provision in their CEO & Top executives’ salaries. E.g. If the CEO did any scam/fraud, he’ll have to return his previously paid salary / bonus, even if he had retired/left the job afterwards. (किसी बैंक का सीईओ कांड में पकड़ा गया तो पुरानी तनखाह भी लौटानी होगी.)

12.15.3 🏠 Margin Requirements / Loan to Value (LTV) (सीमा अनिवार्यता)



Figure 10: जब घर में पड़ा है सोना, फिर काहे को रोना?

- ⇒ RBI can mandate Loan to Value (LTV) for a gold-loan, home loan, auto loan or business loan etc. so a Bank/NBFC can’t lend more than x% of the value of the collaterals. RBI can change this x% to boost / curb demand. (गिरवे रखी चीज के मूल्य के सामने बैंक या गैर-बैंक संस्थान व्यक्ति को कितना कर्ज दे सकते हैं? रिजर्व बैंक उसके मानदंड में बदलाव द्वारा, बाजार में चीज-वस्तुओं की मांग को बढ़ा या कम कर सकता है)

LTV reforms in 2020-Aug	Before	After
Gold Loan	75% value of gold/gold-jewellery	90%

😊 **Benefit?** More quantity of loan by pledging same quantity of gold → 🏠 post-corona-economic-revival.

12.15.4 Selective Credit Control (चयनात्मक ऋण नियंत्रण)

In a negative / restrictive direction (नकारात्मक)	In a positive direction (सकारात्मक दिशा में)
- Credit Rationing System: English (in 18 th century) and USSR (till 1990s)– their central bank will not give more than “X” amount as loan to individual banks. And an individual	- 🚗 Consumer credit control e.g. During deflation / recession, RBI can relax the down payment / EMI installment norms for durables

In a negative / restrictive direction (नकारात्मक)	In a positive direction (सकारात्मक दिशा में)
can't get more than prescribed amount of loans for each category (housing, education, business). - 1960s: Credit Authorization Scheme (CAS) in India: all commercial banks had to obtain prior approval of the RBI before loaning ₹ 1 crore/> to a single borrower. - 1970s: RBI imposed quantitative ceiling on non-food loans to boost green revolution, food inflation. But such measures failed due to lax monitoring and loopholes. (शिथिल निगरानी के चलते बेअसर रहे)	like Vehicles, TV, Fridge etc. to boost consumption and demand. - Priority Sector Lending <see below> प्राथमिक क्षेत्र के ऋण मानक

12.16 PRIORITY SECTOR LENDING (PSL: प्राथमिकता क्षेत्र के लिए ऋण मानक)



Figure 11: थोड़ा लोन हमको भी दिलवा दो Governor-sahib!

- ⇒ **1968:** First time RBI used the word “priority sector”: Banks must give 40% of their loans to 3 priority sectors 1) agriculture 2) small industries 3) exporters by 1985. (कृषि छोटे उद्योग और निर्यातक)
- ⇒ Over the years, more sectors were included in it. (समय रहते और भी क्षेत्रों को इसमें शामिल किया गया)
- ⇒ **2015:** some reforms in PSL. → **2019:** RBI's UK Sinha Committee on MSME loan reforms and a few Other committees had suggested the reforms in the PSL.
- ⇒ **2020-Sept:** RBI reformed PSL guidelines as following:

Priority Sector Loans norms → minimum quota after 2020-Sept Reforms	BEFORE	AFTER
 Weaker Sections (कमजोर वर्ग): ⇒ SC, ST, Women, PH, Minorities, Manual scavengers, Artisans, ⇒ PM-Jan Dhan Yojana Overdrafts upto Rs.10k, ⇒ Beneficiaries of Govt's National Rural/Urban Livelihood Mission Schemes (NRLM/NULM: More in  Pill#6: HRD → Poverty Removal Schemes)	10 %	 12%*
 Agriculture (कृषि) (all farmers: small and big)	10%	8%
 Agriculture: सीमांत किसान और छोटे किसान ⇒ Marginal Farmer (owns upto 1hectre land) सीमांत किसान ⇒ Small farmer (>1 upto 2ht) छोटे किसान	8 %	 10%*
 Micro Enterprises (अति लघु उद्योग), Khadi-Village industries	7.50%	7.50%
Above categories (Weaker section, agriculture, micro-enterprise) plus, other categories such as ⇒ Small & Medium Enterprises, Affordable housing loans to beneficiaries under Pradhan Mantri Awas Yojana ⇒ food processing companies, Vermi compost, biofertilizer, seed production,	4.50%	2.50%

⇒ Exporters, Student-Education loans (upto Rs.10l), ⇒ Social Infrastructure (schools, health care, drinking water, sanitation facilities); ⇒ Renewable Energy Projects (wind mills, biomass generators, solar street light, micro-hydel plants etc.) etc.		
Total PSL for Indian Scheduled Commercial Banks and (Foreign Banks with 20 or more branches).	40%	40%

* These quota  is implemented in Phase Wise manner by 2023-24. (क्रमिक रूप से लागू होंगे)

 Benefit? It will  loan-availability for the weaker section and small farmers thus helping in the United Nations' Sustainable Development Goals related to poverty removal. ( Ref: HDT-Pillar#6) कमजोर वर्ग और छोटे किसानों को ज्यादा मात्रा में कर्जा मिल पाएगा. गरीबी निवारण, संयुक्त राष्ट्र के सतत विकास लक्ष्यों की प्राप्ति में मदद करेगा.

- ⇒ PSL quotas are 'minimum (न्यूनतम/कम से कम)' & not maximum. So, if bank wishes, it can EVEN give even 60% of its loans to weaker sections, instead of just 12% "minimum quota" meant for weaker section.
- ⇒ Bank's Loans given to Non-Banking Financial Company (NBFC: गैरबैंक वित्तीय कंपनी) who are lending to above PSL categories = such 'indirect loan' to PSL sectors will also be counted for bank's quota. (परोक्ष रूप से दी लोन भी गिन ली जाती है।)
- ⇒ Bank + NBFC's joint lending / co-lending/ co-origination loans to PSL categories are also eligible, with certain caveats but #PHD-NOT-IMP. (बैंक और गैर-बैंक का साथ में मिलकर पीएसएल क्षेत्र को कर्ज दिया, तो उसमें बैंक ने दिया कर्ज इस क्वोटे में गिन लिया जाता है, कुछ शर्तों के अधीन)

12.16.1 PSL Reforms-2020: on RRB/SFB/UCB?

What is the difference/meaning of SCB/RRB/SFB/UCB etc? Ans: ( Ref: HDT-Pillar#1B1: classification)

Type of Bank & PSL Reforms-2020:	Before	After
Indian Scheduled Commercial Banks (SCB: अनुसूचित वाणिज्यिक बैंक) and Foreign Banks in India with 20 or more branches	40%	same 40%
Foreign Bank in India with <20 branches (विदेशी बैंक)	40%	same 40%
Regional Rural Banks (RRB: क्षेत्रीय ग्रामीण बैंक)	75%	same 75%
Small Finance Banks (SFB: लघु वित्त बैंक)	75%	same 75%
Urban Cooperative Banks (UCB: शहरी सहकारी बैंक)*	40%	 75%
Rural Cooperative Banks (ग्रामीण सहकारी बैंक)	N/A	N/A

- ⇒ *These quota  is implemented in Phase Wise manner. So, It will become fully effective in 2023-24.
- ⇒ Internal quotas may be different e.g. RRBs: Weaker section =15%. But, poor cost-benefit in chasing all that information. #  थोड़ा-पढ़ो-आगे-बढ़ो

12.16.2 PSL Reforms-2020: Startups, Renewable Energy and Healthcare

PSL Loans → other category	BEFORE	AFTER
Startup Company is a company: ⇒ Age: Not older than 10 years AND ⇒ Annual turnover: Not more than ₹100 cr AND ⇒ Function: innovation in goods/services. (नवाचार) ( Ref: HDT-Pillar#4B)	only eligible categories: ⇒ Agro/Food processing related Startup ⇒ MSME Startup [then What is MSME? ( Ref: HDT-Pillar#1D and #4B)]	All types of Startups allowed in PSL quota For loans upto ₹50cr

💡 Renewable energy(अक्षय ऊर्जा)	only loans upto 15cr eligible	⬆️ 30cr
🏥 Healthcare project/Hospital?	5cr	⬆️ 10cr

12.16.3 🏠🏠🏠 PSL Reforms-2020: Weightage to poor districts (गरीब/पिछड़े जिलों को भारांक)

RBI will classify the districts based on previous PSL loans given by all banks:

Type of district	if Axis bank gives ₹100 PSL loan in this district → RBI will count Axis's quota-fulfillment as __ .
Low Credit penetration e.g. Tawang, Dantewada etc. जहाँ भूतकाल में बैंक-कर्ज की पहुँच कम रही है	₹125 (आरबीआई ने एक ऐसी भारांक प्रणाली बनाई है जिसमें बैंक पिछड़े जिलों में लोन देकर बहुत आसानी से अपना पीएसएल लक्ष्यक हासिल कर सकती है।)
High Credit penetration e.g. Ahmedabad, Pune etc. जहाँ पहले से ही काफी कर्जा दिया जा चुका है	₹90 (ताकि बैंक जो पहले से सम्पन्न जिले हैं, उसे ज्यादा सम्पन्न बनाने की जगह पिछड़े जिले पर ध्यान दे)

⇒ Thus, RBI's PSL weightage system will passively discourage banks from giving more PSL-loans to the developed districts and it will encourage banks to give PSL-loans to backward districts. This will help in more balanced regional development. क्षेत्रीय रूप से संतुलित विकास में यह कदम फायदेमंद होगा.

AB CD ? Priority Sector Lending by banks in India constitutes loans to _____. (UPSC-Pre-2013)

a) Agriculture b) Micro and Small Enterprises c) Weaker Sections d) All of the above

12.16.4 🏠🏠🏠📄 Priority Sector Lending Certificates (PSLC) from 2016 onwards



Figure 12: भाई आमिर/Rancho हमने अपना assignment नहीं किया, तू अपना "EXTRA-walla" हमें बेच दे!

⇒ In this arrangement, the overachieving Banks can sell their excess PSL in form of 'certificates' to underachieving banks without transferring the loan assets or its risk. (लक्ष्यों से ज्यादा उपलब्धि हाँसील करने वाली बैंक, अन्य जरूरतमंद बैंक को सर्टिफिकेट बेचती)

⇒ Four kinds of PSLCs traded through RBI's E-Kuber Portal, viz., Agriculture (PSLC-A); Small and Marginal Farmers (PSLC-SM); Micro Enterprises (PSLC-ME); and General (PSLC-G). 🔄 But, their internal difference/Operational details notIMP4Exam.

If an underachiever bank can't fulfil its PSL-quota through PSL-certificates purchase then ultimately,

⇒ Underachiever bank will have to deposit PSL-shortfall money to NABARD's Rural Infrastructure Development Fund (RIDF), SIDBI, National Housing Bank (NHB), MUDRA Ltd. etc as per the norms decided by RBI from time to time. (लक्ष्यों को हासिल नहीं कर पाने वाली बैंक ने आरबीआई द्वारा चिन्हित अलग-अलग संस्थाओं में पैसा निवेश करना पड़ेगा)

⇒ Underachiever bank will earn interest from such deposited money, but it'll be (usually) linked with Bank-Rate & their money will be locked-in a long-term project. वह पैसा लंबे समय तक अटक जाएगा

AB CD ? Which of the following is not an instrument of Selective Credit Control? Pre-1995

a) Regulation of consumer credit **b) Rationing of credit**
c) Margin requirements d) Cash reserve ratio

AB CD ? An increase in the Bank Rate generally indicates that _____. (Pre-2013)

a) Market rate of interest is likely to fall.

- b) Central Bank is no longer making loans to commercial banks.
 c) Central Bank is following an easy money policy.
 d) Central Bank is following a tight money policy.

 If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do ? (UPSC-Prelims-2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Answer Codes: [a] 1 and 2 only [b] 2 only [c] 1 and 3 only [d] 1, 2 and 3

12.17 MONETARY POLICY TOOLS: A READY RECKONER TABLE

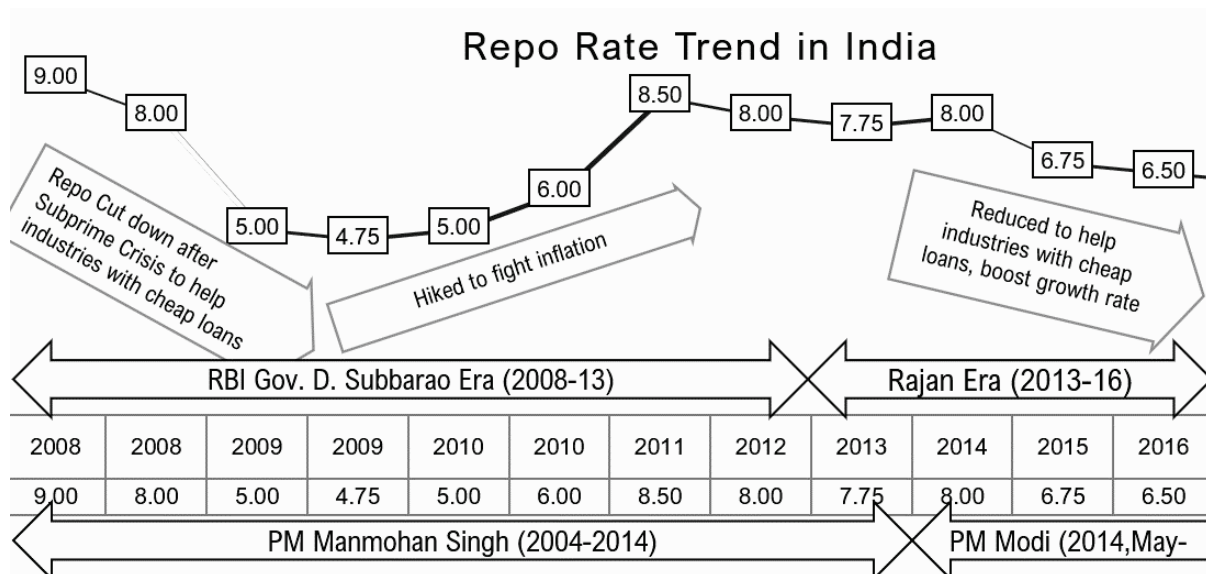
Tools & Strategy?		<2% CPI= Fight deflation (अपस्फीति)	>6% CPI= Fight Inflation (मुद्रास्फीति)
⇒ Deflation: ↑ money supply, inject liquidity ⇒ make loans cheaper, ↑ consumption ⇒ Inflation: Do reverse		Easy, Cheap, Dovish, Expansionary policy. आसान-सस्ता व्याजदरे, विस्तारवादी	Tight, <u>Dear</u> , Hawkish, Contractionary तंग- महंगी व्याजदरे, संकुचनवादी
Quantitative	Reserves: CRR, SLR	↓ (Decrease)	↑ (increase)
	Key Rates (Repo, MSF, Bank Rate)	↓ (Decrease)	↑ (increase)
	Market Ops (OMO)	OMO: RBI Buys G-Sec from market.	OMO: RBI Sells G-Sec
Qualitative Tools	Moral Suasion / Direct Action	Nudge / Force the banks to enforce Dovish Policy	To enforce the Hawkish policy
	Margin Req. / Loan to Value (LTV)	Increase e.g. Gold-LTV: 60% → 90%	inverse
	Selective Credit Control / Priority Sector Lending (PSL)	↑ loan-flow to sectors that can generate employment e.g. textile → workers buying more → demand / consumption increased → deflation fought.	- ↓ the loan-flow to sectors where speculative investment is leading to demand-side inflation e.g. real estate & housing. - ↑ loan-flow to sectors where loans can ↑ supply e.g. onion farmers.

** MCQs are usually confined to how can CRR,SLR,Repo & OMO be used for inflation / deflation control. For rest of the tools you need not waste time thinking 500-jaat-ke-permutation-combination & PhD.

12.18 MONETARY POLICY IN PRESENT-DAY INDIA

There are 3 strategies / ways of making a monetary policy:

1. **Exchange rate stability** (विनिमय दर स्थिरता): Singapore & other export-oriented economies use this. They want to keep their local currency at certain rate against US-dollar to boost exports. (How? Ans Pillar#3)
2. **Multiple Indicators** (एकाधिक संकेतक): Central Bank tries to focus on Economic Growth, Employment, Inflation Control and Exchange rate stabilization. India's RBI followed this strategy upto 2016.
3. **Inflation targeting / Price Stability** (मुद्रास्फीति लक्ष्यीकरण): Central Bank only aims to keep inflation controlled, THEN other indicators (growth, employment, exchange rate) will automatically fall in line. Model successful in Western nations → RBI's Urjit Patel Committee Report (2013-14) recommended it for India → adopted from 2016-Oct, by amending RBI Act Section 45 →



12.18.1 Monetary Policy Making under RBI Act since 2016



Figure 13: जाने क्या होगा रामा रे.....

Table 5: composition of the statutory Monetary Policy Committee (MPC: वैधानिक मौद्रिक नीति समिति):

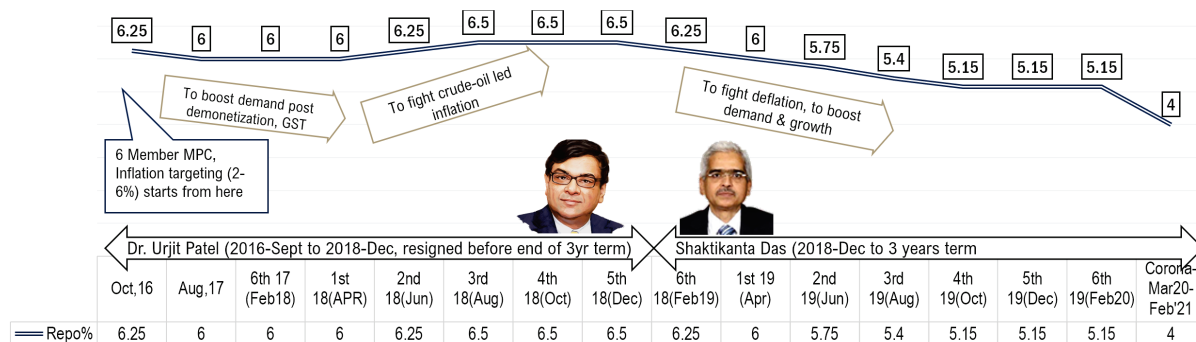
RBI side (3 members)	Govt. Side (3 members)
1. RBI Governor, as the Ex-officio Chairman. 2. Dy.Governor responsible for Monetary Policy. Michael Patra (from 2020-Jan). Earlier Viral Acharya. 3. One person nominated by RBI Central Board: Mridul Saggarr (Executive Director, RBI).	1. Dr. Shashanka Bhide from National Council for Applied Economic Research (NCAER, Delhi) 2. Dr. Ashima Goyal from Indira Gandhi Institute of Development Research (Mumbai) 3. Dr. Jayanth R Varma from IIM-A
Their tenure tied with their ex-officio job tenure (पदेन कार्यकाल) E.g. Shaktikanta's <i>shakti</i> (powers) will be gone after his 3-years tenure as RBI-Governor expires, unless he is reappointed.	Tenure: 4 years, no re-appointment. (पुनःनियुक्ति असंभव)

 RBI side (3 members)	 Govt. Side (3 members)
RBI Governor & Dy. Gov are selected by Financial Sector Regulatory Appointment Search Committee (FSRASC) is headed by Cabinet Secretary (IAS)	They're selected by Search-cum-Selection Committee headed by Cabinet Secretary (IAS)

- Meeting quorum 4 persons, incl. Governor. (कार्यसाधक संख्या: कम से कम चार लोगों की हाजरी जरूरी)
- Legally required to hold minimum four meetings in a year. (कानूनी रूप से सालाना कम से कम 4 बार मिलना जरूरी)
- In practice, they meet every two months to decide bi-monthly monetary policy updates. (Although during 🦠 Corona-lockdown met more frequently).
- Repo rate(=Policy rate= benchmark interest rate: decided by Majority vote. (मौद्रिक नीति दर बहुमत से तय होगा)
- When they vote for the first time, all members, including the Governor, will vote. If tie → Governor can vote again for second time as casting vote (यदि मतों में बराबरी हुई तो गुल्मी सुलझाने के लिए निर्णायक मत).
- To ensure **transparency / accountability** (पारदर्शिता / जवाबदेही):
 - Govt can send message only in writing.
 - Committee must publish its minutes of the meeting on the 14th day, and “Monetary Policy report” at every 6 months.
- **Inflation target** decided by Union Government, after consulting with RBI Governor. (महंगाई नियंत्रण का लक्ष्य सरकार तय करेगी गवर्नर से विमर्श करने के बाद)
 - **Present target:** Keep Consumer Price Index (CPI:All India) within 2-6% for 2016-2020 (ending at 31/03/2021). [alt. way of saying: 4% +/- spread of 2%]
 - **Target fail:** if inflation not kept in this 2-6% zone for 3 consecutive quarters (=9 months) then Committee must send report to Govt with reasons and remedies (लक्ष्य में असफलता के कारण और उपचार की रिपोर्ट भेजनी होगी).

Asked in UPSC-Pre-2015	Asked in UPSC-Pre-2017
 ? With reference to inflation in India, find correct statement: a) Controlling the inflation in India is the responsibility of the Government of India only b) The Reserve Bank of India has no role in controlling the inflation c) Decreased money circulation helps in controlling the inflation d) Increased money circulation helps in controlling the inflation	 ? Consider following statements about Monetary Policy Committee: 1. It decides RBI's benchmark interest rates. 2. It is a 12-member body including the Governor of RBI and is reconstituted every year. 3. It functions under the chairmanship of the Union Finance Minister. Find Correct Statements: (a) 1 only (b) 1 and 2 only (c) 3 only (d) 2 and 3 only

12.19 📁 REVIEW OF MONETARY POLICIES



Monetary Policy Committee decides only Repo rate. Other decisions, such as CRR-SLR cut, PSL norms, banning magnetic-chip cards etc are decided separately alone by RBI Governor. However, after the meeting, he'll make all these announcements together, in the Press conference.

📁 ? MCQ. The Reserve Bank of India's recent directives relating to 'Storage of Payment System Data', popularly known as data diktat command the payment system providers that : (Prelims-2019)

- 1) They shall ensure entire data relating to their payment systems are stored in a system only in India.
- 2) They shall ensure that the systems are owned and operated by public sector enterprises.
- 3) They shall submit the consolidated system audit report to the comptroller and Auditor General of India by the end of the calendar year.

Find Correct Statement(s): codes: (a) 1 only (b) 1 and 2 only (c) 3 only (d) 1,2 and 3 only

Ans. After April-2018's monetary policy RBI governor announced certain regulatory reforms. One of them was :- Payment System data must be stored in India within next 6 months, to ensure its safety against misuse / Russian-Chinese-hackers. So, for Prelims-2019, this was D-1 year current affairs. Now we are targeting 2021, so need not put so much efforts behind 2018's current affairs.

	📁 Policy Decisions & Regulatory Announcements [we will study in appropriate pillars/sections, so DONOT LOSE SLEEP YET]
Dec-2018	- Urjit's last policy: No change in Repo; Stance: Calibrated Tightening. - While Crude oil prices have declined by ~30% since October, so higher inflation is unlikely. But RBI wants to keep inflation @4 per cent on a durable basis. So, "calibrated tightening" stance continued. - Loan rate external benchmarks WEF 1/1/2019. - RBI to reduce SLR, from 19.5% to 18% in a phased-manner. - RBI's own Ombudsman for digital transactions- he'll look into not just banks but all payment service providers. (📁 Ref: 1A1) - RBI to setup Ex-SEBI Chairman U K Sinha's Committee on long-term solutions for loans to MSME sector. (📁 Ref:4B)
Feb-2019	- Shakti's 1st Policy: CPI falling towards 2%, so to prevent deflation, Repo cut by 25 basis points BPS (6.50% → 6.25%), - Decision was not unanimous. (निर्णय एकमत नहीं था) Dy.Gov Viral Acharya voted against reducing repo, saying our previous stance in dec-meeting was "Calibrated Tightening" so it'll be wrong.

	- But, majority voting favored to cut repo rate, stance changed to “neutral”. - Collateral free loans to farmers: limit raised from ₹1l to ₹1.6lakhs
Apr-2019	- Repo cut 25bps (6.25% → 6.00%), stance kept at Neutral. - Decision not unanimous. Dy. Gov. Viral Acharya fears inflation due to Oil & El Nino. But, Gov.Shaktikanta Das feels the declined sale of vehicles, air & sea traffic is pointing to deflationary trend ahead, so rate cut necessary. - Loan interest rates: External Benchmark mechanism was to be implemented from 1/4/2019 but decision deferred after bankers’ feedback.
Jun-2019	- Repo Cut 25bps (6.00% → 5.75%), Consequently, the reverse repo rate @5.50%. MSF and Bank Rate @6% - Stance: changed from Neutral to accommodative = next time Committee may decrease the repo rate or keep it unchanged, but, no chances of rate hike. - Committee voted unanimously for rate cut because, IMD has predicted 96% normal monsoon, so high level of food inflation seems unlikely. Fuel prices rose but overall inflation is offset by falling of other commodities prices. Thus, CPI inflation remained unchanged at around 3%. Slowdown in trade and manufacturing due to US-China trade war, and other geopolitical issues. So cheaper loans required to boost demand and mfg. measures to promote digital economy - RBI waives NEFT & RTGS charges. Banks will be required, in turn, to pass these benefits to their customers.
Aug-2019	- Repo cut 35 bps (5.75-0.35=5.40); accommodative stance. - RBI’s National Electronic Funds National Electronic Funds Transfer (NEFT) will function 24/7 basis on all days, from 2019-December. - Banks lending to NBFC (who is lending to agro,MSME, housing etc PSL sectors) will be counted under Bank’s PSL quota achievement. - External Loan Benchmark from 1/10/2019.
Oct-2019	- Repo cut 25bps (5.40-0.25=5.15); accommodative stance. measures to promote digital economy - We shall identify one district per State/UT, & develop it as 100% digital payment enabled district. - Large sized Prepaid Payment Instrument (PPI) companies such as Amazon Pay, Mobikwick etc. will be required to setup Internal Ombudsman (आंतरिक शिकायत निवारण अधिकारी) to reduce workload of RBI’s digital ombudsman.

Dec-2019	- No changes in Repo Rate or Stance. (5.15% accommodative stance) - heavy unseasonal rains → onions & other vegetables supply disrupted → price rise. - Pulses' area under cultivation is declining → supply declining → price rise. - Milk became more expensive due to rise in fodder prices. - 13 states' Electricity distribution companies (DISCOMs) have ⬆ Electricity prices. - So, if repo reduced → inflation problem may worsen. - At the same time, the economy is facing slowdown, sales are down so, if repo increased → slowdown may worsen. So, the MPC Committee unanimously (एकमत होकर) decided to keep repo unchanged. - Regulatory updates related: Urban Co-operative Banks (UCB), Small Finance Banks, Semi-closed PPI etc. in respective pillars.
Feb-2020	- No changes in Repo Rate or Stance because of reasons similar to Dec-2019. - CPI Inflation rose to 7.4% in December-2019 (which is outside the statutory limit of 2-6%) & this inflation rate is highest since 2014-July. So, ideally, RBI should have ⬆ repo rate to combat inflation but ○ 1) December-2019 policy had kept Accommodative stance = repo couldn't be increased. It could only be kept same/reduced. ○ 2) Union Budget-2020 announced various measures to boost economic growth so Committee preferred to wait & watch how those measures impact inflation and growth, before changing repo rate. <u>RBI announces Measures to promote economic growth::</u> 1. LTRO: Long Term Repo Operations (LTROs) of 1 yr & 3 yr. 2. CRR Exemption based on (new) loans given for 1) automobiles, 2) residential housing and 3) MSMEs <u>RBI announces measures to promote digital economy</u> 1. Regional Rural Banks (RRBs) will be allowed to operate as 'merchant Acquiring Banks', in other words, they can also tie up with card companies directly. (Ref: 1A1). 2. RBI to construct a "Digital Payments Index" (DPI) to capture the growth of digital payments across India.
March to April	- Given below as a separate sub-topic for Corona

12.20 🦁🦁🦁 RBI'S MONETARY POLICIES: CORONA MARCH TO APRIL '20

By default, RBI's MPC Committee supposed to meet every 2-2 months. So, After February's meeting, they should hold next meetings in April. But in Corona crisis economic slowdown they met more frequently. कोरोना महामारी के चलते आए आर्थिक संकट से निपटने के लिए समिति ने तय समय से पहले एकाधिक मीटिंग का आयोजन किया:

2020-March, last week	⇒ Due to Corona outbreak, RBI held the meeting sooner in the last week of March-2020, instead of April.
2020-April, 17 th	⇒ As we learned, MPC Committee only has one task- decide repo rate. All other measures like CRR cut etc depend solely on RBI Governor's discretion. These measures don't require MPC Voting or approval.

	⇒ So, in 2020-April, RBI governor (को सपना आ जाता है और वो) holds press conference announcing some additional measures to revive economy against Corona.
2020-May	⇒ As per bi-monthly (2-2- months) pattern, this meeting was planned in 2020-June but was advanced to May due to Corona

The gist of above March-April-May announcements are as following (and they're considered to be part of

👤 ATMANIRBHAR BHARAT, which we'll learn in Pillar#2D and #4C):

12.20.1 👤 ATMANIRBHAR → Gist of RBI's March2April 2020 Announcements:

- ⇒ 📉 CRR to 3% and 📉 Repo to 4%.
- ⇒ Policy corridor changed, to 📉 Reverse repo rate. #SBI-telemarketing4loans
- ⇒ 🏦🔧🏠👤: Targeted Long Term Repo Operations (TLTRO: लक्षित दीर्घकालिक रेपो) → RBI gives loans to banks with condition that banks must invest it in "X" places to help Corporates & NBFCs. (Ref the full short note in earlier part of this handout.)
- ⇒ 🏦🔧🏠👤 RBI's special or flexible liquidity window to help Mutual fund companies.

👤 ATMANI → Reforms by RBI in Mar-Apr-May-2020	We'll learn in Pillar#
🏦🔧🏠👤 Loan/EMI/NPA relief / Moratorium (ऋण अदायगी पर रोक)	📄 1B2: NPA
🏦🔧🏠👤 Special Refinance Facility for AIFI (All India Financial Institutions). खास किस्म की पुनर्वित्त योजना, अखिल भारतीय वित्तीय संस्थानों के लिए	📄 1B1: classification of Banks → AIFI (NABARD, SIDBI, EXIM, NHB)
RBI defers BASEL Norms, IndAS accounting Norms, orders bank to pause/halt the Dividend Distribution	📄 1B2: BASEL norms
🏦🔧👤: RBI reforms Ways and Means advances (WMA) and Consolidated Sinking Fund (CSF)	📄 1C: SEBI/Sharemarket: Short term Debt instruments
RBI reforms Voluntary Retention Route (VRR: स्वैच्छिक अवधारण मार्ग) Fully Accessible Route (FAR: सम्पूर्णतः सुगम्य मार्ग)	📄 3A: Balance of Payment (BoP): FDI, FPI

12.20.2 🏦🔧🏠👤 RBI's Monetary Policies: 2020-August

- ⇒ 2020-May- last meeting (Which was originally scheduled in the month of June)
- ⇒ 2020-Aug: meeting held.
- ⇒ Repo **unchanged** @4% so Automatically MSF@4.25 and RR@3.35%. **Stance:** Accommodative
- ⇒ No changes in repo because
 - 📈 food inflation due to i) corona-lockdown supply chain disruptions and ii) heavy rains.
 - So as per the theory RBI should 📈 the repo rate to combat food inflation.
 - But, expensive loans → post-corona economic-revival will be harmed. So, no changes in Repo.
- ⇒ Announced to conduct more rounds of **Op.Twist**, to help Govt & Companies to borrow at a cheaper rate.
- ⇒ CRR: technical reforms i) Automated sweep-in and sweep-out (ASISO) facility. ii) Flexible Automated Option for Managing CRR Balances.
- ⇒ **Gold Loan LTV:** Before 75% → AFTER 90%. benefit? More quantity of loan can be taken by pledging same quantity of gold → post-corona economic-revival.
- ⇒ **Priority Sector Lending (PSL) reforms:** 1) 📈 quota for weaker section, small-marginal farmers. 2) Made all types of Startups eligible for PSL loans. 3) Extra weightage to give PSL-loans in poor districts.

- ⇒ **RBI Committee under KV Kamath** submitted report on how to restructure loans impacted by the Covid 19 pandemic. "We'll take reforms accordingly".
- ⇒ **RBI to loan ₹75,000cr** to All India Financial Institutions (AIFIs: NABARD, SIDBI, EXIM, NHB) → post-corona economic-revival. (📖 Ref: HDT-Pillar#1B1- classification of Banks and NBFCs)
- ⇒ **Less Cash Economy / Digital Payment / Fraud Prevention:** (1) Scheme of Offline Retail Payments Using Cards and Mobile Devices (2) Online Dispute Resolution (ODR) for Digital Payments (3) Positive Pay Mechanism for Cheques. (📖 Ref: HDT-Pillar#1A1)
- ⇒ We'll create a Reserve Bank Innovation Hub for research in cyber security, digital payment etc. साइबर सुरक्षा, डिजिटल भुगतान इत्यादि में संशोधन/नवाचार के लिए रिजर्व बैंक में एक नवाचार केंद्र बनाएंगे

12.20.3 🏦📖🔊 RBI's Monetary Policies: 2020-October

Repo unchanged @4% so Automatically MSF@4.25 and RR@3.35%. Stance: Accommodative. Because

- ⇒ CPI inflation >6.5% in July-August 2020. This is beyond the statutory 2-6% limit. So, ideally RBI should  the repo rate to combat inflation, but that will make the loans expensive and harm the post-corona economic revival. so the RBI kept the repo rate unchanged. (महंगाई से लड़ने के लिए अगर लोन महंगे कर दिए तो कोरोनावायरस के पश्चात भारतीय अर्थतंत्र को पुनर्जीवित करना मुश्किल होगा इसलिए रिजर्व बैंक के दरों में कोई बदलाव नहीं किया गया)
- ⇒ Besides, the present inflation is caused by supply-side problems due to lockdown. Once the unlockdown progresses → supply  → inflation . so changes in the repo rate not required at present. (तालबंदी हटने पश्चात वैसे भी बाजार में चीज वस्तुओं की आपूर्ति बढ़ेगी तो अपनेआप महंगाई काबू में आ जाएगी.)
- ⇒ **TLTRO:** another round announced
- ⇒ **Less Cash Economy / Digital Payment:** (1) RTGS made 24/7 (2) perpetual license. (📖 Ref: Pillar#1A1)

12.20.4 Monetary Policy: 2020-December

- ⇒ RBI is required to control the inflation within 2 to 6% of CPI all India. Inflation @7.6%(Oct), So in theory repo  required, but corona-slowdown = RBI does not want the loans to become more expensive. So repo rate unchanged at 4%. Stance accommodative. हालांकि महंगाई नियंत्रण के लिए रेपो दर को बढ़ाना जरूरी है किंतु कोरोना के बाद अर्थव्यवस्था को पुनर्जीवित करने के लिए सस्ते लोन मुहैया कराना भी उतना ही जरूरी! इसलिए रेपो दर में कोई बदलाव नहीं.
- ⇒ Banks prohibited from paying dividend to shareholders from their profits (So as to build buffer against the Corona loan defaults) बैंकों ने अपने मुनाफे में से शेयरधारकों को लाभांश वितरण करने पर रोक

12.20.5 Monetary Policy: Feb-2021 update

Repo unchanged @4% so Automatically MSF@4.25 and RR@3.35%. **Stance:** Accommodative. Because

- ⇒ 1) Food inflation is normalizing with arrival / supply of winter fruits & vegetables, but fuel inflation is worrisome. So can't  Repo. खाद्य पदार्थ तो सस्ते होने लगे किंतु लेकिन इंधन के चलते महंगाई अभी भी स्थाई रूप से काबू में नहीं
- ⇒ 2) GDP growth yet to fully revived → so cant  Repo [else Expensive loans=  demand →  GDP growth].
- ⇒ **CRR:** During CORONA-2020, CRR was reduced from 4% to 3% (2020-March till 2021-March). now moving towards economic recovery, enough loanable funds available so, Restoration/ of CRR in two phases: 3.5% (2021: March2May) → 4% (2021-May)
- ⇒ 🗣️ **BEFORE:** RBI appointed 3 types of ombudsman for consumer complaints: (i) Banking Ombudsman Scheme (ii) NBFC Ombudsman (iii) Digital Transaction Ombudsman. 😊 **After:** Integrate these 3 into a One Nation One Ombudsman / Integrated Ombudsman Scheme (एकीकृत शिकायत निवारण अधिकारी योजना)

⇒ 🤖 **BEFORE:** Retail investors Indirectly invested in G-sec via Mutual funds, stock exchanges. 😊 **AFTER:** Retail Investors can directly Open "Gilt Securities Accounts Retail Direct" with RBI's E-Kuber core banking solution (CBS) platform. 😊 **Benefits:** [1] Deepening of the g-sec market (सरकारी प्रतिभूतियों के बाजार की जड़ों को गहरा करेगा) [2] New investment opportunities for aam-aadmi. (निवेश के नए अवसर) (More in Pillar 1 C: SEBI share market)

12.20.6 🚫🔇 Monetary Policy bi-monthly announcements: ignored

After the MPC Committee decides repo rate, the RBI governor also announces some regulatory announcements by himself. But, I've **ignored** many technical announcements due to their poor cost:benefit for "general studies of economy" such as सब तकनीकी दिशानिर्देश अपनी परीक्षा में काम के नहीं. फालतू में बकत बर्बाद मत करो।

- CRR ASISO guidelines | Borrowing limits under Marginal Standing Facility as a % of NDTL
- (1) SLR holding reforms (2) banks and NBFCs: co-lending for PSL loans (3) Export Data Processing and Monitoring System (EDPMS), the 'Caution / De-caution Listing' of exporters for Authorised Dealer (AD)
- Guidelines for Foreign Exchange Trading Platform for Retail Participants developed by Clearing Corporation of India.
- new committees to review systemically important Core Investment Companies (CICs).
- Technical guidelines for retail investors to participate in State G-Sec auctions.
- Basel III standards—Leverage Ratio guidelines: 4% for Domestic Systemically Important Banks (DSIBs) and 3.5% for other banks.
- Will implement recommendations of Usha Thorat Task Force on Offshore Rupee Markets.
- Updated norms for non-interest-bearing Special Non-resident Rupee (SNRR) Account.
- And so many other things. #🤖 थोड़ा पढ़ो-आगे बढ़ो

12.21 🗒️🏠🏦📉 BANKS' LENDING RATES % (बैंक ऋण की व्याज दरें)



Figure 14: Sir, अब से आपको ये लोन, इतने प्रतिशत ब्याज में पड़ेगी।

RBI's 6-member statutory MPC decides policy rate (=repo rate) to keep inflation within 2-6% CPI (All India) but who decides lending rates of individual banks, & how? Ans:

1969	Govt began nationalization of private banks, and 'administered interest rates' (प्रशासित ब्याज दरें) on them i.e. Govt would decide how much loan interest rate the banks should charge on borrowers?
1991	M.Narsimham suggested deregulation: Govt should not dictate / administer individual banks' interest rates. RBI should only give methodology to banks. (सरकार ने अपने मनमाने ब्याज दर थोपने नहीं चाहिए)
2003	RBI introduced Benchmark Prime Lending Rate (BPLR) system
2010	- RBI introduced BASE Rate + Spread system; - update frequency on individual banks' discretion (अपनी मर्जी/ विवेकाधीन). So, it did not help transmission of monetary policy much. Even IF RBI reduced repo rate, the banks would not update their formula figures regularly. रिजर्व बैंक ने अपनी रिपो दर कम करी किंतु बैंकों ने लोन सस्ते नहीं किए 🤖

12.21.1 🏠🏦📊 Bank's loan interest rate: MCLR system(2016)

- In 2016, RBI ordered banks to link their loan interest rate = "Marginal Cost of Funds based Lending Rate (MCLR) + Spread" system.
- Banks to **calculate on monthly** basis. Its formula consists of CRR Cost, Operating Cost, Marginal cost of funds (Repo Rate, Deposit Interest) etc. what is the meaning of these things, how they work? ANS.

👉 NOTIMP for exam. # 📈 थोड़ा-पढ़ो-आगे-बढ़ो

- 😊 **Benefits?** Better transmission of Monetary Policy; transparency & accountability to borrowers.
- 😞 **Limitation?** From January to Oct 2019, RBI has reduced its repo rate by 135 bps but banks reduced their loan interest rates by merely 40-47 bps. Thus, even though the RBI reduces its repo rate, banks are not quickly reducing their loan interest rates. (रिजर्व बैंक ने अपनी रिपो दर कम करी किंतु बैंकोने लोन सस्ते नहीं किए)

12.21.2 🏠🏦📊 Bank's loan interest rate: External Benchmark (बाहरी बेंचमार्क)

⇒ MCLR's #EPICFAIL ultimately forced RBI to order following from 1st October 2019.

⇒ Banks must link their loan interest rates with "External Benchmark + Spread + Risk premium" system.

⇒ Banks must feed the latest data of external benchmark in above formula, atleast once **every three months**.

⇒ 😊😊 **External Benchmark Benefits?** Ans = Same benefits which MCLR couldn't fully deliver.

Individual bank free to pick any one External Benchmark such as	External Benchmark system is applicable to the new loans given to....
1) RBI repo rate or 2) 91-day T-bill yield or 3) 182-day T-bill yield or 4) any other benchmarks by Financial Benchmarks India Ltd.	1. Personal loans (taken for any sudden emergency expenditure) 2. Retails loans (home, vehicle, electronics etc) 3. Loans to micro & small enterprises 4. Loans medium enterprises (this 4 th category is to be added from 1/April/2020). 5. It is applicable to old/previous loans in above categories, if borrower fills the application form.

Related topic: Fixed vs Floating interest loans, teaser loans, NPA etc. 📖 Pillar1 B-2: burning issues → NPA

12.21.3 🌐 Corona-2020 impact on Deposits interest rate & Loans interest rate as per 📊📊 ES21

Deposits amount बचत में आने वाली राशि	⇒ Initial months of lockdown the growth of deposit 📉📉 because people withdrew money in panic. Although in the later months → Unlock down and normalcy → 📈📈 Quantity of deposit तालाबंदी के शुरुआती महीनों में लोगों ने एहतियाती कारणों से बैंकों से अपनी डिपॉजिट निकाली हालांकि परिस्थिति सामान्य होने पर, बाद के महीनों में वापस बचत की मात्रा में बढ़ोतरी होने लगी है
Deposit interest बचत ब्याज दर	⇒ 📉📉 The saving deposit rates = 3.25-3.5% in 2019 but 2.7-3.0% in 2021. Reason: ⇒ RBI has reduced repo rate, and also provided long term loans in TLTRO so, banks are not so greatly desperate to acquire the raw material (i.e. money) from deposits. रिजर्व बैंक से दीर्घावधि के रिपोर्ट लोन मिलने के चलते बैंकों को डिपॉजिट कर्ताओं की ज्यादा जरूरत महसूस नहीं हुई इसलिए उनको बजट का पैसा बैंकों में जमा करने के लिए लुभाने के लिए ज्यादा बचत ब्याज दर% जारी करने की भी जरूरत महसूस नहीं हुई ⇒ 2) 📉 Loan demand So cannot offer high level of returns to depositors. कोरोना की मंदी बैंकों का लोन देने का काम वैसे भी धीमा हो गया इसलिए वह डिपॉजिट कर्ताओं को, उनकी बचत पर अच्छा ब्याज दर% नहीं दे पाए

Loan interest	⇒ ▾ due to ▾ in repo rate in the External benchmark system लोन ब्याज दर सस्ते हुए ऐसा आर्थिक सर्वेक्षण का कहना है
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12.22 🚫 LIMITATIONS OF MONETARY POLICY IN INDIA (मर्यादाएं)

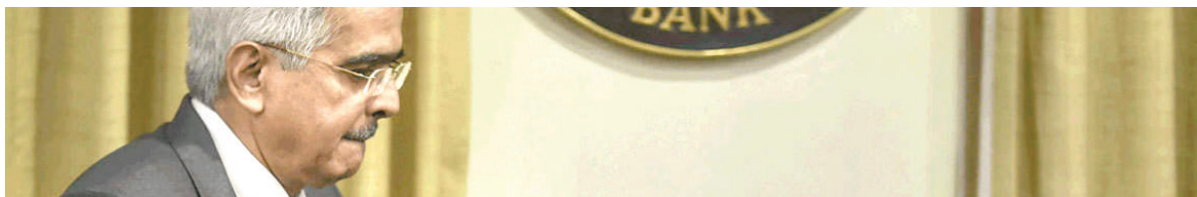


Figure 15: मैं काम तो कर रहा हूँ, लेकिन उसकी सकारात्मक असर, अर्थव्यवस्था पर दिख नहीं रही। 🗨️

Even though the monetary policy is updated every 2 months, its efficacy in controlling inflation or boosting growth is restricted by following factors: (निम्न कारणों के चलते, मौद्रिक-नीति मंहगाई-नियंत्रण और आर्थिक वृद्धि में असरकारकता नहीं दिखा पायी:)

- 1) Western countries' households → consumerist lifestyle → don't save large amount of money in Banks. So their banks borrow more quantum of money from US Federal reserve and European Central Bank respectively. Whereas in India, Repo is not major source of funds for Indian banks, due to higher level of savings & deposits. (पाश्चात्य देशों में उपभोक्तावादी जीवनशैली। जबकि भारतीयों में बैंक-बचत की भावना के चलते हमारे बैंकों के लिए आरबीआई के रेपों लोन, पैसों का मुख्य स्रोत नहीं है। अंतः रिपो दर सस्ते होने पर भारतीय बैंकों को खास फरक नहीं पड़ता।)
- 2) Before the External Benchmark System: Indian Banks **did not immediately pass** on the RBI rate cuts to customers, citing NPA/Bad loans / profitability problem. According to RBI's own research, it took minimum 6-12 months for repo rate cut to benefit end-customers and it took about 24 months for repo rate changes to impact inflation. (बाहरी-बेंचमार्क से पहले के समय में, भारतीय बैंक तुरंत अपने ब्याजदर कम नहीं करते थे।)
- 3) Poor management in Public Sector Banks (PSB), scams in the private sector banks, large level of Non-Performing Assets (NPA) also stymie the impact of monetary policy. (सार्वजनिक क्षेत्र के बैंकों में बेअसर प्रबंधन, निजी क्षेत्र के बैंकों में घोटाले, अनर्जक परिसंपत्तियाँ) **More in 📖 Pill1B2**
- 4) **Supply Side Issues:** El-Nino/Poor monsoon hurting crop production → food inflation; Wars & Geopolitical issues 📌 global crude oil & raw material prices, protectionism by China-US denting our exports. RBI can't control them. (कम बारिश + मध्यपूर्व की भूराजनीतिक तनाव = भारत में कच्चे माल की आपूर्ति को असर करते हैं, चीन-अमरीका का संरक्षणवाद भारतीय निर्यात में बाधा डालता है। इन्हें नियंत्रण में रखना आरबीआई के लिए मुश्किल।) **📖 Pill3&4A**
- 5) While cheap loans can boost consumption, investment and growth but because of poor-monsoon-fear and oil-price fear, RBI (during Raghuram Rajan and Urjit Patel's governorships) was usually apprehensive of inflation and more inclined to keep repo rate high. Then RBI was get criticized for not facilitating cheap loans & economic growth because of its 'Hawkish policy'. (मंहगाई-नियंत्रण के चक्कर में कभी कभी खुद रिजर्व के मंहगे रिपो-ब्याजदरों ने अर्थतन्त्र को आगे बढ़ने से रोका है।)
- 6) **Government Side Issues:** Fiscal deficit, Subsidy leakage, Populist Loan-waivers etc. (राजकोषीय खाध, सबसिडी का रिसाव, लोकलुभावन के लिए किसानों की ऋण-माफी) **📖 Pill#2D → FRBM Act**
- 7) **Structural Issues in Economy:** lack of Ease of Doing Biz, electricity-road infrastructure = production /supply affecting inflation trends. (व्यापार में सुगमता की कमी, बिजली-सड़क की अवसंरचना आदि बुनियादी मसलों के चलते उत्पादन/आपूर्ति की कमी। रिजर्व बैंक जादू की छड़ी चलाकर इसे दुरुस्त नहीं कर सकता) **📖 More in Pill4B&5**
- 8) Presence of **Informal moneylenders** in rural areas who circulate black money at exorbitant interest rates. Poor penetration of banking sector, lack of financial inclusion, cash-intensive rural economy etc. (ब्याजखोर/साहूकार जो कालाधन उंचे ब्याज पर घुमाते हैं, सभी गरीबों के वित्तीय समोवेशन की कमी, नगदी मुद्रा पर ज्यादा आधीन है हमारी ग्रामीण अर्थव्यवस्था। रिजर्व बैंक अपनी रेपो दर कम भी करें, इधर कुछ फर्क नहीं पड़ता) **📖 More in Pill1D**

12.22.1 Conclusion / निष्कर्ष

- ⇒ Monetary policy plays an important role in price stability, economic growth, job creation and social justice in any economy. But, its efficacy is low for Indian economy, because of the aforementioned issues. (उक्त कारणों के वर्तमानमें मौद्रिक नीति मंहगाई नियंत्रण, आर्थिक वृद्धि, रोजगार सृजन, सामाजिक न्याय में महत्वपूर्ण भूमिका नहीं अदा कर पाती)
- ⇒ However, both RBI and Government of India have been making attempts to address it through various reforms for fixing the bad loan/NPA problem in banking sector, developing the infrastructure & promoting the ease of doing business, financial inclusion and less-cash economy. (अनर्जक परिसंपत्तिया, बुनियादी अवसंरचना, व्यापार में सुगमता, वित्तीय समोवेशन, कम-नगदी वाली अर्थव्यवस्था के लिए रिजर्व बैंक व सरकार ने कदम उठाए हैं।)
- ⇒ In the upcoming time, these reforms will help improving the impact of Monetary policy in India's economic growth and human development. (इन सुधार/कदमों के चलते भविष्य में आर्थिक-वृद्धि, मानव विकास में मौद्रिक नीति का असर अवश्य बढ़ेगा)

12.22.2 Mock Questions for UPSC Mains/GSM3 (250 words)

- 1) "Monetary policy is both a catalyst and an impediment to India's growth story." Examine critically. "भारत की विकास-गाथा में मौद्रिक नीति एक उद्दीपक भी है और एक अवरोधक भी है।" इस कथन की समीक्षा कीजिए।
- 2) "Monetary policy is a useful medicine, but NOT panacea for economic growth". Comment in context of India. "आर्थिक विकास के लिए, मौद्रिक नीति एक उपयोगी दवा है, लेकिन रामबाण नहीं".
- 3) Discuss the significance of Monetary policy in India's economic growth and human development. भारत की आर्थिक वृद्धि और मानव विकास में मौद्रिक नीति के महत्व पर चर्चा करें.
- 4) Give an account of the steps undertaken by RBI to revive the Indian economy from Corona pandemic. कोरोना महामारी से भारतीय अर्थव्यवस्था को पुनर्जीवित करने के लिए आरबीआई द्वारा उठाए गए कदमों का विवरण दीजिए।
- 5) Enumerate the steps taken by the RBI under the Atma Nirbhar Bharat initiative in 2020. आत्मनिर्भर भारत अभियान के अंतर्गत आरबीआई द्वारा उठाए गए कदमों की सूची दीजिए।

 NEXT HDT: Pillar1B1- Classification of Banks and NBFCs



Pillar#1B-1: Classification of Financial Intermediaries: Bank & NBFC

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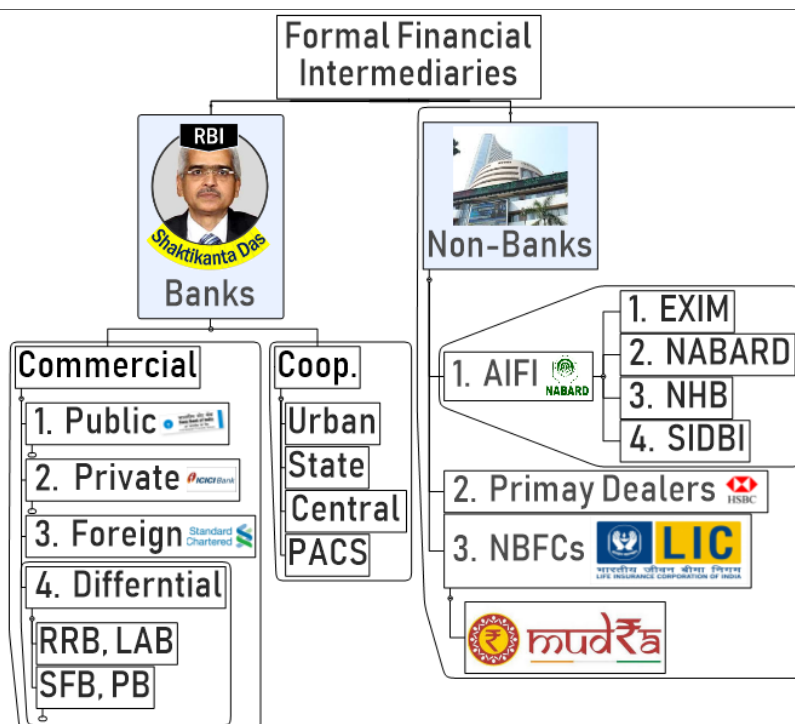


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13 FINANCIAL INTERMEDIARIES → BANKS

- A Financial Intermediary (FI: वित्तीय मध्यस्थ) is an entity that acts as the middleman between two parties in a financial transaction- between lenders vs. borrowers, investors vs. entrepreneurs, households vs business firms.
- Such FI can be subdivided into (1) Formal (औपचारिक) (2) Informal (अनौपचारिक).



13.11 BANKS → RESERVE BANK OF INDIA (RBI): भारतीय रिजर्व बैंक

1913	Commercial banks were required to register under the Companies Act, but monitoring was lax. No CRR, SLR, BASEL Norms.
1926	Royal Commission on Indian Currency (Hilton Young Commission) recommends setting up a central bank named 'Reserve Bank of India'.
1929	Great Depression in USA leads to collapse of 450+ banks in India. So British Indian Govt becomes serious about setting up RBI. अमेरिकी महामंदी के बाद केंद्रीय बैंक की स्थापना की आवश्यकता महसूस हुई
1934	Reserve Bank of India Act was enacted.
1935, April	RBI becomes operational from 1 st April, with 1 st Governor Sir RBI Gov: Osborne Smith. India's Viceroy: Willingdon. Government ownership was ~4.4% only.
1935, July	Commercial Banks fulfilling certain conditions were listed in the 2 nd Schedule of RBI Act, & such "Scheduled Banks" were required to keep CRR with RBI.
1943-49	C.D. Deshmukh 2 nd FM of India becomes the first INDIAN Governor of RBI. He had also participated in the Bretton Woods Conference, USA (1944).
1948-49	All private investors' shares transferred to Govt of India under the RBI transfer of ownership act 1948. Therefore, RBI governor answerable to Parliament, has to pay dividend to Govt from its profits. (मुनाफे मे से लाभांश वितरण)
1949	Banking Regulation Act (बैंकिंग विनियमन अधिनियम) empowered the RBI to ⇒ Give license to companies to open banks, give permission banks to open new branches. ⇒ Prescribe auditing and liquidity norms for Banks such as SLR. ⇒ Protect interest of depositors. Force elimination / merger of weak banks. ⇒ Related Topic: banking regulation ordinance 2020 → Pillar#1B2: Bad loans & other burning issues in the banking sector.



🏠 ? In context of independent India's economy, which was the earliest event to take place? (UPSC Prelims-2009)

- A) Nationalization of insurance companies B) Nationalization of State Bank of India
C) Enactment of Banking Regulation Act D) Introduction of first Five year plan

Table 1: RBI Central Board Composition

(Non-Official Directors)	(Official Directors)
- 2 Government officials	- RBI Governor
- 10 directors nominated by Government.	- 4 Dy. Governors
- 4 directors from RBI's local boards @West, East, North, South	

13.11.1 🏠 ₹ 🏢 RBI Governor & Dy Governor

- 25th Governor: Shaktikanta Das (Retd. IAS, Former finance secretary, Member of 15th Finance Commission). He replaced Urjit Patel (2018-Dec).
- RBI Act (Section 8) provides for “NOT MORE than 4” Dy. Governors
- Governor and Dy. Governors' tenure *usually* (not always) 3 years. कार्यकाल
- Re-appointment is possible. पुनः नियुक्ति संभव
- They're selected by Financial sector regulatory appointment search committee (FSRASC) headed by the Cabinet Secretary (IAS) → successful candidates' names sent to Appointments Committee of the Cabinet headed by the Prime Minister for final approval.

📄 **Related Topics:** RBI Autonomy, Dividend Controversy, Section 7, PCA/BASEL: [Handout 1B2 → Burning Issues in Banking Sector]

13.11.2 🏠 ₹ 🏢 RBI Offices & Departments

- RBI 4 regions: Northern: Delhi, Eastern: Kolkata, Southern: Chennai, Western: Mumbai
- RBI has various dept after Banks, NBFCs, Payment Systems, Foreign Exchange Management etc.
- Previously individual departments directly acted against violators. WEF 1/4/2017: A New **Enforcement Dept** was setup in RBI for centralized action against violators.
- This is different from FinMin's Enforcement Directorate (प्रवर्तन निदेशालय) that looks after Foreign Exchange Management Act, 1999 (FEMA) and Prevention of Money Laundering Act, 2002 (PMLA: विदेशी मुद्रा प्रबंधन अधिनियम, और धनशोधन निवारण अधिनियम.)

13.11.3 🏠 ₹ 🏢 RBI: Functions of

- 1) **Controller** of Money Supply: Issues M0 under RBI Act, Makes Monetary Policy. (मुद्रा आपूर्ति नियंत्रक)
- 2) **Controller** of Foreign Exchange: through FEMA Act. (विदेशी मुद्रा का नियंत्रक, 📄 more in Pillar#3)
- 3) **Banker** to Governments & Public Debt Manager (सार्वजनिक ऋण प्रबंधक).
- 4) **Banker's Bank**: Lender of Last resort, Advises in monetary matters.
- 5) **Regulator** of all “BANKS”: through BR Act'49, Payment Systems'07 (नियामक)
- 6) **Regulator** of AIFI, NBFC-D & others.
- 7) **Promotional** Roles (संवर्धक भूमिका):
 - a. Customer protection through Ombudsman (शिकायत निवारण अधिकारी),
 - b. Financial Inclusion through PSL norms. Requires bank to open 25% of branches in rural areas
- 8) Data Publication & awareness e.g. Annual Financial Stability Report (वार्षिक वित्तीय स्थिरता रिपोर्ट)
- 9) International Cooperation e.g. BASEL, IMF, G20's Financial Stability Board etc.



Sidenote: Article 371-F of Constitution gives special status to Sikkim, as a result their State Bank of Sikkim is outside RBI's regulatory powers, but that KBC-GK/obscure GK = poor cost benefit.

RBI acts as a bankers' bank. What does it mean? (UPSC-Pre-2012)

- 1) Other banks retain their deposits with the RBI.
- 2) The RBI lends funds to the commercial banks in times of need.
- 3) The RBI advises the commercial banks on monetary matters.

Answer codes: (a) 2 & 3 only (b) 1 and 2 only (c) 1 and 3 only (d) 1, 2 and 3

RBI regulates the commercial banks in matters of (Asked in UPSC-Pre-2013)

- 1) Liquidity of assets
- 2) Branch expansion
- 3) Merger of banks
- 4) Winding-up of banks

Answer Codes: (a) 1 & 4 only (b) 2, 3 & 4 only (c) 1, 2 & 3 only (d) 1, 2, 3 & 4

13.12 SCHEDULED BANKS (अनुसूचित बैंक)

When RBI is satisfied with TWO conditions simultaneously (दो शर्तों का एक साथ पालन होना चाहिए)

- That a public sector or private sector bank has (Paid Up Capital + Reserves) = Min 5 Lakhs AND
- It is not conducting business in a manner harmful to its depositors,

then such bank is listed in the 2nd Schedule of RBI Act, and known as a Scheduled Bank.

Scheduled Bank (अनुसूचित)	Non-Scheduled Bank (गैर- अनुसूचित)
Required to deposit CRR money to RBI's office/vault	Can maintain the CRR money with themselves in their own office/vault. (खुद की तिजोरी में रख सकते हैं)
Eligible to borrow / deposit funds in RBI's window operations.	Depends on RBI's discretion. (विवेकाधीन)
are required to protect the interests of depositors and abide to RBI norms. (जमाकर्ताओं के हितों की रक्षा करनी होगी, और रिजर्व बैंक के नियमों का पालन करना होगा)	Ofcourse, they also have to do it, else RBI can shut them down under Banking Regulation Act.
Can be subdivided into two parts 1) Scheduled Commercial Banks (SCB) e.g. SBI, Axis, ICICI 2) Schedule Cooperative Banks like Haryana Rajya Sahakari Bank, Tamil Nadu State Apex Cooperative Bank	Hundreds of cooperative banks are non-Schedule. But we need not see their list at Rbi.org.in/CommonPerson/English/scripts/banksinindia.aspx

moral outrage not required "Why it is only 5 lakh!!!!?". Send your suggestion to PM Modi to amend the RBI Act, until it's implemented remember the figure. # थोड़ा-पढ़ो-आगे-बढ़ो

13.13 FI ⇒ COMMERCIAL BANKS ⇒ PRE-INDEPENDENCE



Table 2: Before Independence (Exact Years Not-IMP.)

1770	Bank of Hindustan, Calcutta (Europeans owned)
1806-42	- Three Presidency Banks at Bengal then Bombay then Madras.



	- 1861: all three were given the right to issue currency. - 1921: They were combined into Imperial Bank of India ⇒ SBI (1955)
1865	Allahabad Bank (Europeans owned)
1894	PNB: Indian owned, Lala Lajpat Rai helped in foundation.
1908	Bank of Baroda by Maharaja Sayajirao Gaekwad III
1913-30s	State Bank of Mysore, State Bank of Patiala, the rise and collapse of Banking industry, then Birth of RBI (1935)
1940s	State bank of Bikaner, Jaipur, Hyderabad, Travancore by the respective princely states / Nawabs. Post-Independence, these banks became 'Associated Banks of SBI', and ultimately, merged in SBI (2017).

 (Prelims 2009) Q. In independent India's economy, which was the earlier event to take place?

- A) Nationalization of insurance companies B) Nationalization of State Bank Of India
 C) Enactment Of Banking Regulation Act D) Introduction of first Five year plan

 (Prelim-2018) Q. Consider the following events:

1. The first democratically elected communist party government formed in a State in India.
2. India's then largest bank, 'Imperial Bank of India', was renamed 'State Bank of India'.
3. Air India was nationalised and became the national carrier.
4. Goa became a part of independent India.

Which of the following is the correct chronological sequence of the above events?

- A) 4 - 1 - 2 - 3 B) 3 - 2 - 1 - 4 C) 4 - 2 - 1 - 3 D) 3 - 1 - 2 - 4

13.13.1  →  Nationalization of Banks After Independence (आजादी के बाद निजी बैंकों का राष्ट्रीयकरण)

⇒ **NEXUS between Banks and Industrialists:** From 1950s to 1960, only 188 elite people controlled the economy by being in board of top 20 banks, 1452 companies, and numerous insurances, finance companies. This led to reckless lending to directors and their firms. So, Banks failed frequently, RBI had to close them. (रसूखदार लोग के कब्जे में थी बैंकिंग व्यवस्था. भाई भतीजावाद में अंधाधुन कर्ज देते थे)

⇒ Private Banks unwilling to open in rural areas- this did not help in **financial inclusion** of poor, farmers, MSME or achievement of Five Year Plan (FYP) targets or reducing regional imbalance. (वित्तीय समोवेशन, पंचवर्षीय योजनाओं के लक्ष्यक, क्षेत्रीय असमनाताएँ)

Table 3: Nationalization & Merger of Banks after Independence

1948	RBI Transfer of Ownership Act.
	1948: Op. Polo, Hyd. → 1951: 1 st FYP, → 1953: Air India nationalized from Tata
1955	Imperial Bank nationalized and became SBI.
1955-56	LIC Act took over private life insurance cos. 57: 1 st Communist Govt in Kerala 61: Operation Vijay for liberation of Goa, Daman and Diu.
1963	State Bank of Jaipur and Bikaner merged together.
1969	⇒ 'Banking Companies (Acquisition and Transfer of Undertakings) Ordinance, 1969: 14 Private banks with ₹ 50 cr/> deposits were nationalized e.g. Bank of Baroda, PNB, Dena, Canara etc. (बड़ी जमा-राशि वाले निजी बैंकों का राष्ट्रीयकरण) ⇒ Catholic Syrian Bank (1920, Kerala), Ratnakar Bank, Dhanlaxmi Bank, etc., did not have such large deposits, so they were left out & called "Old Private Banks".



1972-73	GIC Act- took over private Non-Life (=General) insurance cos. Later GIC was re-organized with 4 subsidiaries: National Insurance, New India Assurance, Oriental Insurance and United India Insurance. <i>More in</i> Pillar#1D
1980	6 banks with ₹ 200 cr/> deposits were nationalized e.g. Corporation Bank, Vijaya Bank, Oriental bank of Commerce etc.
2019	Previously, State Government of J&K owned 60% shares in J&K bank → Article 370 removal → Union Government took-over this shareholding. Further 500 type historical-GK things on how it functioned before and how it'll function afterwards...poor cost benefit.
Reforms	following Committees were made for reforms in banking sector M Narasimham-I (1991), M Narasimham-II (1997), Dr. Raghuram Rajan Committee (2007) and P J Nayak Committee (2014)

13.14 GOLDEN ANNIVERSARY OF NATIONALIZATION- ES20



Economic Survey 2019-20 (released on 31/01/2020) Vol1Ch.07 observed:

First round of bank nationalisation was done in 1969 so, 2019-1969=50 years Golden anniversary of the bank nationalisation. (निजी बैंकों के राष्ट्रीय करण की स्वर्ण जयंती)

Positive (सकारात्मक)	Negative (नकारात्मक)
✓ After nationalisation, the number of Bank branches in India, the amount of loan given to farmers and villagers= has increased. ✓ This greatly contributed to the agriculture production and poverty removal in the rural areas. कृषि उत्पादन और गरीबी निवारण में मदद की है ✓ PSBs account for 70% of the banking business in India.	❖ From 1960s to 80s: The Government had launched 1) "green revolution" 2) focused on poverty removal through five year plans. ❖ RBI had initiated selective credit control tools & moral suasion to channelize more loans to farmers. ❖ So, those actions were responsible for boosting agriculture & reducing poverty. Thus, Bank nationalization itself has not helped in it much. सरकार और रिजर्व बैंक के कदमों के चलते थोड़ा बहुत अच्छा काम हुआ था. सार्वजनिक बैंकों ने खुद से कोई चांद सितारे नहीं तोड़ लिए.

13.14.1 > : Private sector banks are better than PSBs

ES20 gave lots of depressing data about PSBs such as

⇒ After 2013, PSBs' credit growth has → GDP growth is .

⇒ 2019: PSBs' total loss > ₹ 66,000 crore which is even double than India's budget allocation for education.

And so on.. सार्वजनिक क्षेत्र के बैंकों के नुकसान की रकम सरकार के शिक्षा बजट से भी ज्यादा है

Indicators	: PSBs =losers	: Private Banks= winners
Total NPA in Indian Banks	majority of bad loans / Non-Performing assets (NPA: अनर्जक परिसंपत्तियां)	less

Total Bank frauds in India	>90% of cases occur in PSBs (वित्तीय धांधली/गबन)	Hardly 7%
Return on Equity (मुनाफा)	For every ₹1 that the government invests as share capital in PSBs → they lose 23 paise.	They make 9.6 paise profit against every ₹1 share capital.

⇒ Even in other technical indicators such as Return on assets, Market-to-book ratio, growth of new loans, Capital adequacy norms for BASEL, etc. = 🏠👉 What do they mean is NOT important but sufficient to know (new) Private sector banks (PvB)s outperform PSBs. (ज्यादातर तकनीकी / वित्तीय मानकों पर निजी बैंकों का प्रदर्शन बहेतर)

⇒ Thus, PSBs are clearly not efficient today. If they become efficient = ₹11 lakh+ crore profit for the Government. अगर सार्वजनिक क्षेत्र के बैंक ढंग से काम करें तो सरकार को 11 लाख करोड़ से ज्यादा का मुनाफा हो सकता है

📄📄 ES21: observation about NPA levels in PSB vs PVB & profitability = (More in 📄 Pillar#1B2: NPA)

13.14.2 🧑🏠 = 🧑🏠 PSBs: reasons for inefficiency & remedies?

🧑🏠 Reasons why PSBs are inefficient? सार्वजनिक क्षेत्र के बैंक प्रभावहीन हैं क्योंकि →	Solutions by 📄📄 ES20 (More details in 📄 Pillar#1B2)
PSB staff's salary does not depend on the profitability of the bank. Employee unions frequently engage in strikes/hartals. → तनख्वाह प्रदर्शन आधारित नहीं. घड़ी घड़ी हड़ताल पर चले जाते हैं	- Allow campus recruitment, lateral entry in higher management positions - Make employees 'part owners' through Employee Stock Ownership Plan (ESOP)
They've apathetic attitude towards the use of artificial intelligence, computer technology, marketing, and customer satisfaction. → नई तकनीकी अपनाने में ग्राहकों का संतोष बढ़ाने में इन बैंकों का उदासीन रवैया है	- Use Artificial Intelligence (AI), Machine Learning (ML), Big Data Analytics, geotagging of mortgaged assets etc. - setup an organization PSBN Network to implement above ICT-solutions.

Further, Since the government is the majority shareholder in PSBs,

- 1) 🧑🏠 Usually the persons favored by the present-day ruling party become the Board of directors, irrespective of merit or qualification. Thus, political considerations have significant control/influence over bank's business operations. (बोर्ड में राजनीतिक तत्व- जिनमें बैंकों का सही प्रबंधन करने का अनुभव या कौशल नहीं है)
- 2) 🧑🏠🧑🏠: 🧑🏠 PSBs are subjected to Right to Information (RTI) act, Central Vigilance Commission (CVC), Comptroller Auditor General (CAG), Central Bureau of Investigation (CBI), Courts and media in a more stringent manner. (बैंकर खौफ में रहते हैं की ईमानदार निर्णय की भी शक की निगाहों से जांच होगी)
- 3) Consequently, PSB officials fear harassment under the veil of vigilance investigations & media-trials. They prefer safety and conservatism over risk-taking and innovation. (रूढ़िवाद पसंद, नवाचार नापसंद)

13.15 🏢🧑🏠🔗 CONSOLIDATION OF PSBs [एकत्रीकरण]



Consists of two types of reforms: A) Merger B) Privatization

13.15.1 Consolidation of PSBs → A) Merger (विलीनीकरण)

Table 4: Notable PSB Mergers before 2019, April

2008-10	State Bank of Saurashtra and State Bank of Indore merged into SBI.
2013	- Bharatiya Mahila Bank setup as PSB, HQ Delhi, 100% ownership by Union Government. - BMB's Board of Directors: All women. Staff & Deposit Holders: both men and women, Loans given predominantly to women- and that too without collaterals upto Rs.1 crore.
2017, 1 st April	BMB & 5 Associated Banks of SBI viz. State Bank of Bikaner and Jaipur (SBBJ), State Bank of Hyderabad (SBH), State Bank of Mysore (SBM), State Bank of Patiala (SBP) and State Bank of Travancore (SBT), merged with SBI from 1 st April by swapping of shares.
2017, Nov	- Alternative Mechanism Panel setup under the FM Jaitley's chairmanship (other members: Piyush Goyal, Nirmala Sitharaman). - They examine the proposals for merger/consolidation of the Public Sector Banks (PSBs) and forward to Cabinet for approval. - Department of Financial Services coordinates the filework.
2019, 1 st April	Vijaya & Dena to be merged into Bank of Baroda, by swapping of shares (शेयरों की अदला-बदली). - Among these three oldest: BoB (1908) > Vijaya (1931) > Dena (1938) - BoB & Dena nationalized in '69, HQ: Mumbai - Vijaya: nationalized in '80, HQ: Bengaluru

Table 5: 2019-Aug, FM Nirmala.S announced merger of 10 banks into 4 anchor banks

Amalgamating Banks (एकीकृत / विलीन होनेवाली)	Anchor Bank (सहारा देनेवाली)
- Oriental Bank of Commerce (1943, HQ: Gurugram, Haryana), - United Bank of India (1950, Kolkata)	1) PNB. (1984, HQ: Delhi, It'll become the 2nd largest bank after SBI, in terms of business size and branch network)
- Syndicate Bank (1925, HQ: Manipal, Karnataka)	2) Canara Bank (1906, HQ: Bengaluru, Karnataka)
- Andhra Bank (1923, Hyd) - Corporation Bank (1906, Mangaluru)	3) Union Bank of India (1919, Mumbai)
- Allahabad Bank (1865, Kolkata)	4) Indian Bank (1907, Chennai)

After this process is over, we'll be left with only 12 PSBs (+1 India Post Payment Bank).

- Benefit? Geographical & technological synergies in ATM, Branches, Security Staff, Servers cost etc. (भौगोलिक और तकनीकी तालमेल)
- resulting into reduced cost of business → better lending & deposit rates. Such bigger banks can even expand business at global level.

ES20 Vol1Ch7 on 50 years of bank nationalization also noted:

- ⇒  2019: Global top-100 banks: China (18 banks), USA (12 Banks), Japan > France > India (only 1 bank: SBI at Rank#55). विश्व की 100 सबसे बड़ी बैंकों में भारत का सिर्फ एक ही बैंक है
- ⇒  Even Sweden and Singapore have more global banks than India, even though these countries' size of economy (GDP: सकल घरेलू उत्पाद) is much smaller than India.

- ⇒ So, given India's size of economy (in terms of GDP), India should have 6-8 banks in the global top 100.
 - These large banks provide large loans → India can reach \$5 trillion GDP by 31/3/2025. (📖 More in Pillar4C) Therefore, merger of public sector banks is necessary.
- ⇒ It'll increase the manpower, financial strength of the merged entities, then they can compete at global level. (सार्वजनिक क्षेत्रों के बैंकों का विलीनीकरण करने से उनकी क्षमता में बढ़ोतरी होगी और वह वैश्विक स्तर पे स्पर्धा कर पाएंगी)

13.15.2 🔄 Consolidation of PSBs → B) Privatization (निजीकरण)

It involves Government selling 51% or larger shareholding to private parties. Then such Public Sector Bank will convert into a private sector bank. For example, Axis Bank and IDBI Bank.

13.15.2.1 UTI Bank → 'Privatization' into Axis Bank (2007)

- ⇒ Setup in 60s as a *Sarkaari* Mutual Fund Company through Unit Trust of India Act 1963
- ⇒ 1993: Obtained License to open UTI Bank.
- ⇒ 2001: Ketan Parekh Sharemarket Scam, Govt has to bailout UTI → further restructuring 2007 → Became Axis Bank: 77% private shareholding + 23% by Public sector bodies like LIC, New India Assurance, SUUTI etc. (as of 2019, Jan).

13.15.2.2 IDBI Bank → Purchased by LIC (2018)

- ⇒ 2014: RBI's P.J. Nayak Committee that suggest Govt should exit shareholding in smaller PSBs, to enhance their efficiency. सरकार ने छोटी सार्वजनिक क्षेत्र के बैंकों से निकल जाना चाहिए ताकि उनकी कार्य क्षमता में बढ़ोतरी हो
- ⇒ **Budget 2016:** Govt agreed to reduce its shareholding to <50% in IDBI Bank.
- ⇒ **2018:** IDBI has the highest NPA (28%) among PSB, so no mentally-fit investor willing to buy Govt's shares. Govt. (forces) LIC to buy its 40% for ~9k crores. Thus, LIC will own 51% in IDBI. Deal was approved by the respective financial regulators (RBI and IRDAI) by 2018-July. Though LIC itself is public sector entity but **RBI has declared IDBI as 'private sector' bank.**
- ⇒ 😊 **Positive:** Govt. need not waste tax-payers' money in running such loss making banks. Govt. no longer worry about BASEL-recapitalization of IDBI. LIC can market its insurance policies to IDBI consumers (bancassurance).
- ⇒ 🙄 **Negative:** LIC policy holders' money is going into a loss-making Bank. They'll be deprived of better insurance-investment products (compared to a situation if LIC invested in a profitable company) (जीवन बीमा निगम के निवेशको का वित्तीय दमन, क्योंकि उनका पैसा नुकसान वाली बैंक में जा रहा है).
- ⇒ 📁 **Budget-2021:** proposed to take up the privatization of two Public Sector Banks. Names yet to be disclosed. (दो सरकारी बैंकों का निजीकरण किया जाएगा) Although Newspapers hint 4 PSBs are shortlisted for privatisation- Bank of Maharashtra, Bank of India, Indian Overseas Bank, Central Bank of India. (Although news not yet confirmed by Finance Ministry)

13.15.3 PSB Privatization: Banking Investment Company (BIC-बैंकिंग निवेश कंपनी)

- ⇒ 2014: RBI's P J Nayak Committee for Governance of Banks in India.
- ⇒ He suggested setting up a BIC → Govt should transfer PSBs shares to it. Then BIC will act as 'parent/holding company', and all PSBs will become its **subsidiary/daughter companies.**
- ⇒ BIC will then appoint the board of directors in these PSBs, make policy decisions, privatize / merge them, issue bonds in the market to recapitalise the PSBs for BASEL norms etc (📖 Ref: HDT-Pillar#1b2). In a much more professional & sophisticated manner. (यह संस्था पेशेवर और परिष्कृत तरीके से सरकारी बैंकों का प्रबंधन करेगी)

⇒ Govt/political interference in the functioning of public sector bank [↓], Govt responsibility to recapitalize them through taxpayers money will also ([↓] सरकारी बैंकों की कार्यप्रणाली में राजनीतिक दखल में कमी आएगी. सरकार का आर्थिक बोझ भी कम होगा)

👉 This BIC is NOT YET implemented but once in a while newspaper columnist write about it.

13.15.4 🏠👤 Anti-Arguments against Merger and Privatization of PSBs (विरोध में तर्क)

- Employees worried seniority, promotion, increments (वरिष्ठता, पदोन्नति, वेतन वृद्धि);
- Financial burden of Voluntary Retirement Scheme (VRS: स्वैच्छिक सेवानिवृत्ति योजना).
- Transfer and VRS of employees → Banks may lose regional identities & customer intelligence. (क्षेत्रीय पहचान चली जाएगी)
- Big customers may shift to other banks for faster service and personalized privileges. (तेजी से सेवा और व्यक्तिगत सेवाएँ नहीं मिलने पर व्यापारी दूसरे बैंकों में खाता खोलेंगे)
- Private sector banks are no saints. There have been instances of private sector banks engaging in money laundering activities, taking bribes to pass loans to unworthy borrowers- which ultimately harm depositors (निजी क्षेत्र के बैंक काले धन को वैध बनाना, रिश्वत लेकर गलत लोगों के लोन पास करना, और दूसरी वित्तीय थांथलीयों में शामिल है। इसलिए निजीकरण को हमारी समस्याओं का रामबाण इलाज मानना गलत होगा।)

13.16 🏠👤 COMMERCIAL BANKS ⇒ PVT. SECTOR BANKS (PvB) निजी-क्षेत्र के बैंक



While the nationalization of banks was done with the lofty objectives, but politicization in Public Sector Banks (PSBs) created new set of problems:

- Government administered loan interest rates for populism= Low profitability for PSBs. (मुनाफा कम)
- Political Interference= Low recovery difficult (राजनीतिक हस्तक्षेप के चलते दबंग तत्वों से ऋण वसूली मुश्किल)
- Employees Unions hampering any innovation or customer responsiveness. (नवाचार, ग्राहक सुविधा कम)
- **1991:** Balance of Payment crisis (BoP: भुगतान संतुलन, More in Pill#3) finally forced Govt. to set up a committee for Banking Sector Reforms under The **former RBI Governor M.Narasimham**. He suggested:
 - Government should ↓ its shareholding in Public Sector Banks. (सरकार अपनी शेयर हिस्सेदारी कम करे)
 - RBI should ↓ CRR and SLR (सीआरआर, एसएलआर में कटौती करे)
 - Govt should not dictate interest rates to Banks. Liberalize the branch expansion policy (बैंकों को लोनदर, शाखा विस्तार नीति तय करने में सरकार दखल न करे।)
 - Allow entry of New Private Banks and New Foreign Banks. (विदेशी बैंक और निजी क्षेत्र के बैंकों को अनुमति)

Table 6: Three rounds of bank licensing in India

Round-1 (1993-95)	Round-2 (2001-04)	Round 3 (2013-16)
1) ICICI 2) HDFC 3) IndusInd 4) DCB 5) UTI-> later Axis bank	1) Kotak Mahindra 2) Yes Bank (Founder Rana Kapoor). Related Topic: Yes bank scam/Crisis	Rajan invited applications, Bimal Jalan Committee made selections: 1. Bandhan (A Microfinance company based in W.Bengal)

6) IDBI->now owned by LIC 7) Global Trust Bank-> Merged with Oriental Bank #8-9-10: Bank of Punjab, Centurian Bank, Times Bank were merged into HDFC	 Pillar#1B2: Bad loans & other Burning issues in Bank/NBFC sector	2. IDFC (An infra finance NBFC based in Maharashtra). Later on, another NBFC "Capital First" merged so renamed into IDFC-First
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Above banks are also known as *new-generation private banks* in India. (नयी पीढ़ी के)

13.16.1 'On-Tap' License to open Private Sector Banks (जब मन चाहे तब अर्जी डाल दो)

A private entity can open Bank only after getting license from RBI under Banking Regulation Act, 1949.

Previously, one had to wait till RBI invited applications. But in the On-Tap system (WEF 2016), one can apply to RBI whenever he wishes (like a driving license), provided that:

1. It is a Resident Indian individual, NBFC, or private company
2. min. 10 years of experience in Banking-Finance Sector, (अनुभव)
3. Proposed Bank's shareholding will be initially controlled by Indians. (शेयरमालीकी भारतीयों के हाथ में)
4. Must be willing to open 25% branches in unbanked rural areas. (ग्रामीण इलाकों में कुछ शाखाएं खोली होगी)
5. Min. 500 crore capital required. (न्यूनतम इतनी पूंजी होनी जरूरी पूंजी)
6.  Large industrial groups and NBFC with more than ₹5000 crore asset not allowed.

 Q: MORAL OUTRAGE: isn't above definition conflicting with Scheduled Commercial Bank? Ans, given below

13.16.2 Steps or procedure to open a bank (एक बैंक स्थापित करने के की प्रक्रिया क्या है?)

Ans. No. If you open a commercial bank at present, the steps are as following

- ⇒ First you have to register the company with Ministry of Corporate Affairs, under Companies Act
- ⇒ Then you've to arrange minimum 500 cr capital. For this, If you want to issue shares in the share market to acquire this ₹ → then you have to get permission from SEBI
- ⇒ Finally, you apply for bank license from RBI using above "ON-TAP" facility → If RBI is satisfied with, it will give you license as an "**non-scheduled** (commercial) bank."
- ⇒ After that you run the bank, THEN once you satisfy **BOTH** conditions to become 'scheduled bank'
 - Condition-A) minimum 5 lakh (capital + reserve)... you may already have THAT BUT STILL SECOND Condition-B also need to be fulfilled that...
 - Condition-B) Your bank is not conducting business in a manner harmful to its depositors. So, RBI may observe your bank's business/behavior for some months/years, to satisfy itself in this.
- ⇒ After RBI is satisfied with A+B= will give you the status of "**scheduled** (Commercial) bank."

13.17 ALLOWING NBFC/LARGE CORPORATE TO SETUP BANKS

2016: RBI issued guidelines for 'on-tap' Bank licence. ['On-Tap'= You may apply for it whenever you are ready - just like a driving licence. You don't have to wait for the notification date or "last date to apply" like UPSC.]

- ⇒ On-Tap guideline: Company with minimum ₹500 cr capital can apply. However, its technical rules about assets/ownership were such that Large NBFCs and industrial houses could not apply for it.



- ⇒ 2020-June: RBI constituted PK Mohanty committee for Corporate Structure for Indian Private Sector Banks. It gave technical recommendations with regards to Ownership and licensing of Small Finance, Payments Banks etc. 🖐️ But poor cost-benefit chasing them until it is actually implemented. # 🏦 📉 थोड़ा-पढ़ो-आगे-बढ़ो
- ⇒ It recommended allowing large NBFCs/Corporate/Industrial Houses to apply for Bank licenses. (बड़ी गैर बैंक वित्तीय संस्थान और कॉर्पोरेट समूह को बैंक बनाने की छूट मिले)

13.17.1 🚫 🏦 🏠 🚗 📄: 😊 Arguments in Favour पक्ष में तर्क

- ⇒ 📈 competition, better interest rates, customer services. ज्यादा स्पर्धा, अच्छे ब्याज दर, ग्राहकों को ज्यादा अच्छी सेवाएं
- ⇒ Existing banks' balance sheets have deteriorated by scams & bad loans. So, they've become overcautious and slow in lending to large business projects. Entry of fresh new banks to invigorate the banking sector. पुरानी बैंकों में वित्तीय घपलो/समस्याओं के चलते बड़े प्रोजेक्ट में लोन देने में सुस्ती। नई बैंकों के प्रवेश से इस क्षेत्र में स्फूर्ति आएगी।
- ⇒ IL&FS and other "shadow banks" will be put under more effective control of RBI = 📉 Chances of scams associated with NBFCs in futures. प्रति छाया बैंकों को पारंपरिक बैंक का लाइसेंस दिया जाए तो आरबीआई उन पर सटीक रूप से निगरानी कर पाएगी

13.17.2 🚫 🏦 🏠 🚗 📄: 😞 Arguments Against: विपक्ष में तर्क

- ⇒ Increased competition may lead to a natural tendency of mis-selling the products and lending money to more risky businesses as evident from 2008's American Subprime crisis. अत्याधिक स्पर्धा के चलते येन केन प्रकार से मुनाफा बढ़ाने के लिए अनावश्यक रूप से जोखिम लेकर कमजोर कंपनियों को लोन दिए जाएंगे
- ⇒ PNB-Nirav Modi loan scam, Yes Bank-Rana Kapoor scam, ICICI-Vodafone loan scam = RBI has failed to effectively supervise even the existing banks. रिजर्व बैंक वर्तमान बैंकों की निगरानी करने में भी कमजोर साबित हुआ है
- ⇒ Already large NBFCs are involved in scams: ILFS scam, DHFL scam, Karvy Capital Scam- the critics are afraid that allowing large NBFCs in the Banking sector = more such scams. वित्तीय घोटालों की मात्रा बढ़ेगी
- ⇒ Corporate governance in large industrial houses is not inspiring confidence at present e.g. Ratan Tata vs Cyrus Mistry, Infosys founder Narayan Murthy versus ex-CEO Vishal Sikka etc. Allowing them in the banking sector is not advisable. बड़ी कंपनियों का कॉर्पोरेट शासन ठीक नहीं है. संस्थापक आपस में ही लड़ते झगड़ते रहते हैं
- ⇒ Large industrial houses like Tata, Ambani, Adani- may use the depositors money mainly to finance their own projects/ nepotism, even if such projects are not viable- There will be evergreening of loans for them. भाई भतीजावाद में लोन दिए जाएंगे, पुरानी लोन चुकाने के लिए नया लोन दिया जाएगा.
- ⇒ Could be misused for money laundering by big industrialists. (काले धन को वैध बनाने में दुरुपयोग हो सकता है)
- ⇒ May concentrate India's economic power, depositors' savings in the hands of few oligarchs. Then it could destabilize the entire banking system. (बचत कर्ताओं की जमा पूंजी और भारत की आर्थिक शक्ति कुछ गिने-चुने रसूखदार/कुलीनवर्ग के हाथों में केंद्रित, जिसे पूरी बैंकिंग व्यवस्था अस्थिर होने का खतरा)
- ⇒ Even in developed countries regulators do not encourage the entry of large corporates in the banking sector mainly for the apprehensions about governance and financial stability. (विकसित देशों में भी उनके वित्तीय नियंत्रक इस प्रकार की अनुमति नहीं देते क्योंकि उन्हें भी बैंकिंग शासन और वित्तीय स्थिरता में जोखिम दिखता है)

13.17.3 🚫 🏦 🏠 🚗 📄: Conclusion? (निष्कर्ष)

- ⇒ 🖐️ Anti: Considering aforementioned challenges, risks far outweigh the benefits. RBI and government should focus on improving the administration & supervision of existing bank instead of allowing more



entities here. (आकर्षण/फायदे कम और चुनौतियां ज्यादा। इसलिए यह करने की जगह, वर्तमान बैंकों का प्रशासन और निगरानी ठीक करने में जोर देना चाहिए.)

⇒ **Pro:** Considering above benefits, Large nbfc's and industrial houses may be given bank licences after due diligence & effective supervision. (उक्त फायदों को देखते हुए, प्रभावी निगरानी के साथ इन्हें बैंक का लाइसेंस देना चाहिए)

13.18 **COMMERCIAL BANKS ⇒ FOREIGN BANKS (विदेशी बैंक)**

In Nehruvian Socialist Economy there was disdain & apprehensions about Foreign Banks. So, only a handful of them were allowed to open branches. But, Post-1991-Reforms: system liberalized. (नेहरू-समाजवादी विचारधारा के नीति निर्माताओं में विदेशी ताकतों के प्रति घृणा और डर → बहुत कम विदेशी बैंकों को अनुमति दी थी)

Foreign Bank in India	- They're Incorporated abroad (i.e. registered under the Companies Act of a foreign nation) & opening branch / subsidiary in India e.g. Citibank, Bank of America, HSBC. उन्होंने किसी अन्य देश के कंपनी कानून में पंजीकरण करवाया है और फिर भारत आकर शाखाएं खुली है - While CRR, SLR & other norms applicable, but PSL norms vary depending on number of branches. [Ref: Prev. Handout: PSL]
Indian Public Sector Bank	- Foreigners can invest max. 20% in its shareholding. E.g. BoB (15%), SBI (14%), PNB (13%) भारत की सार्वजनिक क्षेत्रों में विदेशी निवेश की सीमा - Although Government thinking of raising it to 49% to help capital mobilization for BASEL-III norms. [More in Next NPA handout]
India Private Sector Bank	- Foreigners can invest upto 49% (automatic-स्वचालित तरीके) and upto 74% by approval of Government (सरकार की अनुमति लेकर). (More in Pillar#3A: FDI, FPI) - e.g. HDFC (73%), ICICI (59%) Axis Bank (52%). - Although Govt thinking of to 100% to help capital mobilization for BASEL-III norms. [More in Next NPA handout]

13.18.1 **LVB merged with DBS (विलीनीकरण)**

1926: Lakshmi Vilas Bank was set up in Tamilnadu. So it is an Old Private Sector Bank. (निजी क्षेत्र की पुराने जमाने की बैंक) 2020-Nov: Its financial situation deteriorated so RBI approved its merger/amalgamation with Development Bank of Singapore DBS, a Foreign bank in India- they acquired it to branch offices & staff in India. (वित्तीय हालत कमजोर होने पर अन्य एक बैंक में विलीनीकरण)

13.19 **COMMERCIAL BANKS ⇒ DIFFERENTIAL BANKS**





Difference	🌐 Universal Bank (सार्वजनिक)	🌐🚫 Differential Bank (भेदकर)
Open Branches शाखाएं	Anywhere: example SBI, ICICI [* After opening 25% of branches in unbanked rural areas]	Geographical Restrictions on branch opening for Local Area Bank (LAB), Regional Rural Banks (RRB)
Accept	Both Time & Demand Deposits of any amount.	Payment Bank – Accept Max. 1 lakh only.
Give Loans to	Anyone [After 40% PSL]	- SFB, RRB: 75% to PSL - 🚫 Payment Bank can't give loans;

Chronology of differential banks: RRB(1976) → Local Area Bank (1996) → Small Finance Bank & Payments bank(2015) → Wholesale banks (proposed)

13.19.1 🏠👤🌐🚫 Commercial Banks ⇒ Differential Banks ⇒ RRB and LAB

Regional Rural Banks (क्षेत्रीय ग्रामीण बैंक)	Local Area Bank (स्थानीय क्षेत्र बैंक)
- Based on M.Narasimham's Committee on Financial Inclusion in 1970s - Setup under the provisions of RRB act 1976 & its amendment in 2015. Voting power: (Union + State + Sponsor bank) = 51% - e.g. Uttar Bihar Gramin Bank (Sponsor bank- Central Bank of India) - Subjected to CRR, SLR norms but RBI could prescribe separate norms. - PSL: 75%. - Their loan interest rates can't be more than prevailing lending rates of Cooperative Banks in the area. - Restricted to few districts. E.g. Baroda Gramin Bank branches confined to Gujarat's southern districts. - Ultimate regulator: RBI but immediate regulator NABARD.	- Based on Budget-1996 by Finance Minister Manmohan Singh - Unlike RRBs, they're not setup by Union or State govts or by any special act or parliament. But by pvt entities simply applying to RBI under Banking Regulation Act. - Present in Max. 3 geographically contiguous districts. only 1 urban centre per district. - They're Non-Sch. Banks so while CRR, SLR, PSL etc very apply but every norm with caveats. - Initially 4: (1) Coastal Bank Andhra Pradesh (first to setup in 99), (2) Subhadra Local Area Bank, Kolhapur; (3) Krishna Bhima Samruddhi (Andhra & Karnataka) and (4) Capital Local Area Bank: Punjab (Largest). But later Capital LAB converted into Small Finance Bank (2016), so now only 3 left. - Only RBI regulates them.



Jio Payments Bank
INDIA KA NAYA BANK

paytm payments bank

13.19.2 🏠👤🌐🚫 Commercial Banks ⇒ Differential Banks ⇒ SFB & PB

On Nachiket Mor Committee's recommendations (2013-14), Governor Raghuram Rajan approved these new types of banks for (1) financial inclusion (2) competition & innovation among players.

Parameters	Small Finance Banks लघु वित्त बैंक	Payment banks भुगतान बैंक
Examples	Capital Small Finance Bank (Punjab), Ujjivan (Karnataka), Utkarsh (UP): Total 10 list at rbi.org.in/scripts/banklinks.aspx	6 at present: Airtel, India Post, FINO, Paytm, Jio, NSDL. (Total 11 were selected; but AdityaBirla-Idea & other withdrew later)



Eligibility during 1st round of licensing	<i>Min.100cr. capital-walla</i> Resident Indian, Local Area Bank, NBFC, Micro-finance, with 10 years exp. in banking / finance	<i>Min.100cr. capital-walla</i> resident Indians, NBFCs, PPI-wallets (pre-paid payment instrument), mobile telephone companies, super-market chains, cooperatives & companies controlled by resident Indians
Area	RBI Committee gave selection preference North East & Central India clusters where Universal Banks' penetration is poor	Anywhere
Selected by?	Usha Throat (Former RBI Dy.Gov)	Nachiket Mor(Ex-RBI Board Member)
CRR, SLR, Repo, FDI?	Same as Indian private banks	Same as Indian Private Banks, but special terms & condition in SLR.
Rural Penetration	Must have 25% branches in unbanked rural areas	No need but 25% access points must be in rural areas like Business correspondence (BC), Kiraana Stores
Target Consumers	Unserved Underserved Farmers, Micro, Small industries: किसान, सूक्ष्म, लघु उद्योग	Promoting Small savings Remittance of migrant labors, low income households, unorganized sector, small business.
Accept Deposits	Yes, without any restrictions डिपॉजिट स्वीकार करने में कोई पाबंदी नहीं है	- No NRI deposits, Fixed deposit, Recurring Deposit. ** - Can accept only Demand Deposits and max. balance Rs.1 lakh per year per customer.
Debit cards	YES (but EMV-Chip-walla)	YES (EMV-Chip-walla)
Credit cards	YES (but EMV-Chip-walla)	No (because can't "loan")
Loans	- Yes, but 75% in PSL, - 50% of loan portfolio of Rs. 25 lakhs/< loans.	- Can't loan, So no PSL. - They're required to invest all deposits in G-sec, T-Bill and in other SCBs. How much% notimp.
Evolve?	Yes, after 5 years can become Universal Commercial Bank.	Not mentioned.

- ** While Paytm Payment Bank accepts fixed deposit but it's acting simply as an 'Agent' to open your fixed deposit IndusInd Bank, a private sector Commercial Bank.
- BASEL-III norms applicable on both of SFB & PB, and they are tighter than a (universal) commercial scheduled bank. (How, What % = NotIMP)
- Both can sell Mutual Fund (MF), Pension, Insurance policies with approvals of respective regulators.

13.19.3 On-Tap Licenses for starting SFB

- RBI reviewed & found SFBs have achieved their priority sector targets and helped in financial inclusion. More competition and new players will help. (अधिक बैंकों को अनुमति देने से स्पर्धा में बढ़ोतरी वित्तीय समावेशन में मदद)
- so 2019-June, RBI announced it'll allow 'On-Tap' license for SFB soon. (i.e. no need to wait for notification unlike IAS exam, apply whenever you wish like a driving license)

Eligibility conditions to start SFB license 'On Tap':

- Minimum ₹200 crore capital.



- Indian persons/Indian companies with minimum “X” years experience in banking/finance.
- Existing NBFCs, MFIs, local area banks and payments banks may apply.
- Urban cooperative banks (UCB) allowed to convert into SFB but capital norms slightly different.
- 2019-Dec: Even **Payment banks can convert** into SFB, after 5 years of operation.

 Find correct Statement(s) about Payment Banks? (Prelims-2016)

- 1) **Mobile telephone companies and** supermarket chains that are owned and controlled by residents are eligible to be promoters of Payment Banks.
- 2) Payment Banks can issue both credit cards and debit cards.
- 3) **Payment Banks cannot undertake lending** activities.

Codes: (a) 1 and 2 only (b) **1 and 3 only** (c) 2 only (d) 1, 2 and 3

 What is the purpose of setting up of Small Finance Banks (SFBs) in India? (Prelims-2017)

1. To supply credit to small business units
2. To supply credit to small and marginal farmers
3. To encourage young entrepreneurs to set up business particularly in rural areas.

Codes: (a) 1 and 2 only (b) 2 and 3 only (c) 1 and 3 only (d) **1, 2 and 3**

13.19.4 Commercial Banks → India Post Payment Bank (IPPB)

- Registered as a Public Limited Company under Companies Act, 100% owned by Department of Posts (Ministry of Communication and Information Technology.) → Obtained RBI's License under Banking Regulation Act to start working as a Payment Bank.
- Airtel Payments Bank was first to launch operations in 2017. Later, IPPB launched pilot branches at Raipur (Chhattisgarh) and Ranchi (Jharkhand). Then IPPB launched full-fledged operations in 2018.
- **Motto:** Aapka Bank, Aapke Dwaar. Largest customer reach with 1.55 lakh Post offices across India. Doorstep banking through Postmen (but fees applicable).
- IntraBank transfer: no fees. IMPS: fees applicable.
- Bank Account Types: **Safal, Sugam, Saral** (~~internal differences about ATM withdrawal limits etc. not important for UPSC~~).
- Account can be opened with zero balance, no minimum balance requirement. Max. Balance 1 lakh per person. Minimum Customer Age: 10 years / >
- 2019-July: IPPB announced it desires to convert itself from Payment Bank into a Small Finance Bank (SFB), so it can offer loans to customers. (But as per RBI guidelines, Payment bank need 5 years' experience before upgrading their license to SFB. यानि की अभी मंजिल दूर है।)

 Find correct about India Post Payments Bank (IPPB)? [Asked in UPSC-CDS-2018-1]

- 1) It has been incorporated as a Public Limited Company.
- 2) It started its operation by establishing two pilot branches at Hyderabad and Varanasi.

Answer codes: (a) **1 only** (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

13.19.5 (Proposed) Wholesale & Long Term Finance Banks (WLTF)

- 2017: RBI proposed दीर्घकालिक थोक वित्त बैंक.
- Entry capital 1000 crores, can't accept deposits less than 10 crores, can give loans only to large corporates & infrastructure projects. Other banks may use it for PSLC-certificate trading.



- 🎓 But since it's not yet formed, so we need not lose sleep about how exactly it'll work.

13.20 🏠 👤 FI ⇒ BANKS ⇒ COOPERATIVE BANKS (सहकारी बैंक)

Type	🏠 👤 Commercial Banks	🏠 👤 Cooperative Banks
Banking Reg. Act	Applicable since 1949	Applicable since 1966.
Regulator	RBI	<u>Under RBI's supervision:</u> - Multistate Cooperative Banks - Urban Cooperative Banks <u>Under Dual supervision</u> - Other types of cooperative banks are under dual supervision of RBI + respective State govt's registrar for cooperative society.
CRR, SLR, BASEL-III	Yes	Yes, but, RBI could keep different slabs/ norms.
Repo, MSF	Eligible to borrow	Yes, but only selected category of Cooperative Banks
PSL Lending	Yes 40-75%	Only urban cooperative banks
Who can borrow	Anyone	First preference to members
Vote power	Based on Shareholding, like a Commercial Company	According to Cooperative Society norms, members have vote power. So, 1 member = 1 vote irrespective of how much capital contributed.
Profit Motive	Yes, purely profit motive, so lending rates may be higher than Coop.	Desire to help community. So, lending rates little lower than commercial bank
Presence	All India & overseas branches.	Mainly in Guj,MH,Andhra,TN

🤖 **Challenges:** Politicization, casteism, poor recovery of loans, scams, money laundering. (राजनीतिकरण, जातिवाद, कर्जा वसूली में अनियमितता, घोटाले, धन-शोधन/ काले धन को वैध बनाना)

Table 7: Classification of Cooperative Banks

Urban Cooperative Banks (UCB: शहरी)	Rural Cooperative Banks (ग्रामीण)
Further subcategories depending on - Scheduled / Non-Scheduled; - Single State / Multi State. From 2018, RBI allowed them to voluntarily upgrade to Small Finance Banks, with certain conditions.(#)	1) Long term: Land Banks, Cooperative Agriculture & Rural Development Banks 2) Short term: State Cooperative Bank → District Central Cooperative Bank (DCCB) → Primary Agricultural Credit Societies (PACS: प्राथमिक कृषि ऋण समितियां)* * * *PACS are not 'banks'. They can't issue chequebooks. RBI doesn't regulate them. Only State registrar regulates them.

- (#) due to various financial-scams, RBI's Y.H. Malegam Committee (2011) suggested many reforms on UCBs, but that required Govt to amend the laws (which was not done until 2020). Therefore, (2018 onwards) RBI offered Urban Cooperative Banks to convert their license into Small Finance Bank (SFB) then RBI alone will have supervision powers without interference from Government/its registrar of cooperative society.



- 2021: RBI has setup **NS Vishwanathan** Panel for strengthening urban Cooperative Banks (UCBs).

Find correct statement(s) (asked in UPSC-Prelims-2020)

1. In terms of short-term credit delivery to the agriculture sector, District Central Cooperative Banks (DCCBs) deliver more credit in comparison to Scheduled Commercial Banks and Regional Rural Banks
2. One of the most important functions of DCCBs is to provide funds to the Primary Agricultural Credit Societies.

Answer Codes: (a) 1 only

(b) 2 only

(c) Both 1 and 2

(d) Neither 1 nor 2

13.20.1 Cooperative Banks: Negative News (2019): PMC Bank

- ⇒ The Punjab and Maharashtra Cooperative (PMC, HQ-Mumbai, setup 1984) is a Multi-State Scheduled Urban Co-operative Bank. It functions in Maharashtra, Delhi, Karnataka, Goa, Gujarat, Andhra and MP.
- ⇒ PMC bank loaned large amount to a weak company named 'HDIL', because of its cozy relations with bank directors. Company who couldn't repay it. NPA became so large, bank might collapse.
- ⇒ RBI imposed withdrawal limits on the depositors using the powers of Banking Regulation Act. Because, if there was no withdrawal limit → 'bank run' would have been so high even CRR-SLR can't fulfill it.
- ⇒ Then ball-by-ball commentary of RBI/Govt/SC/HC action = poor cost benefit.
- ⇒ **Budget-2020:** Promised to amend the Banking Regulation Act to increase RBI's powers over cooperative banks. → done through Ordinance, which was later passed as Act बैंकिंग विनियमन (संशोधन) अध्यादेश/कानून

Recently the RBI has imposed limitations, initially for a period of six months, on the withdrawal of amount by account holders of this banks: (UPSC-CDS-i-2020)

(a) IndusInd Bank (b) Dhanlaxmi Bank

(c) Punjab and Maharashtra Cooperative Bank (d) South Indian Bank

13.20.2 Banking Regulation (Amendment) Ordinance/Act, 2020

- **2020-June:** Ordinance issued to amend the Banking Regulation Act, 1949. **2020-Sept:** Act passed
- **Objective?** protect depositors, prevent cooperative banks from falling into fraudulent activities.

Table 8: भूतकाल में दोहरे नियंत्रण के चलते घोटाले/कांड के बाद कार्यवाही धीमी होती थी, इसलिए अब ज्यादातर सहकारी बैंको को सिर्फ रिजर्व बैंक के दायरे में लाया गया

Type of Bank	BEFORE: Regulator(s)	After: Regulator(s)
Commercial (SBI Axis)	RBI	RBI
Coop (Single State: rural)	RBI + State Govt (=dual regulation)	RBI + State Govt
Coop (Single State: urban)	RBI + State Govt(=dual regulation)	RBI ONLY
Coop (Multi State Cooperative)	RBI + Union Govt(=dual regulation)	RBI ONLY
Coop: Primary Agricultural Credit Societies ("PACS")	State Govt	State Govt

⇒ State Government = State Govt's Registrar for Coop Societies

⇒ Union = Agro Ministry's Registrar Multi-State Coop Societies

Before	After this Ordinance/Act/Amendment
If a commercial / cooperative bank was on verge of collapse, then RBI would first issue "moratorium (रोक)" e.g. ⇒ "single depositor can't withdraw more than XX amount, ⇒ Bank can't give loans until YY Date.	⇒ It makes technical reforms for easier/faster amalgamation / merger / restructuring of weak banks. (कमजोर बैंकों का आसानी-तेजी से समामेलन / विलय / पुनर्गठन)



Before 🐱 🐱	After this Ordinance/Act/Amendment 🐱 🐱
⇒ Then RBI will begin the process of fixing the bank. → This disrupted the normal business of the bank and created panic among investors. (निवेशकों में दहशत फैलती थी)	
It was difficult for a coop bank to raise capital/money by issuing IPO/Shares/Debentures. (Ref 📖 #1C)	Technical norms relaxed, to make it Easier.
Provisions were vague / weak. (कानून में स्पष्टता नहीं थी / कानूनी प्रावधान कमजोर थे)	Bank chairman must not be insolvent or a convicted person etc., else RBI can remove him/her. (दिवालि या अपराधी नहीं होना चाहिए)
Provisions were vague / weak.	Coop Bank's Board of directors must have at least 51% of members with knowledge or experience in accountancy, banking, economics or law. ELSE RBI can replace board members (हर स्थानिक छूटभैये नेता को अब बोर्ड-सदस्य नहीं बना सकते)
Provisions were vague / weak.	However, if scam in a cooperative bank → RBI can takeover/supersede its board of directors for upto 5 years, subject to some technical conditions. (घोटाला हुआ तो सहकारी बैंक के बोर्ड का अधिग्रहण कर, रिजर्व बैंक वहाँ अपने लोगों/अफसरों को 5 सालों तक वहाँ बैठा सकता है- हालांकि कुछ तकनीकी शर्तों के अधीन)

Related topics:	Refer to
DICGC, UCB's Supervisory Action Framework (SAF) → refer to	Pillar##1B2: Bad loans & other burning issues in Banking Sector
Jan Dhan Yojana, Lead Bank Scheme etc →	Pillar##1D: Financial Inclusion

13.20.3 🏠 🏦 Cooperative Banks: Kerala Bank (2019)

RBI permitted Kerala's all 13 district co-operative banks (DCBs) to be merged with Kerala State Co-operative Bank. The combined entity will be called "Kerala Bank". It will be a 'State Cooperative Bank.'

13.21 🚫 🏠 🏦 FORMAL FI ⇒ NON-BANKING FINANCIAL INSTITUTIONS

गैर-बैंक वित्तीय संस्थान

13.21.1 Development Finance Institutions (DFI)

- ⇒ विकास वित्त संस्थान are meant for Medium to long term loans to industries, including support services like arranging foreign currency, underwriting, technical / management consultancy, Bank guarantee etc.
- ⇒ They don't accept DEPOSITS from ordinary people.
- ⇒ Previously the financial intermediaries (वित्तीय मध्यस्थ) were classified into three categories 1) Bank, 2) Non-Bank 3) DFI
- ⇒ But M.Narasimham-II Committee on Banking sector reforms (1998): recommended only two categories: Bank or non-bank. DFI were required to join either one category.

1948	Industrial Finance Corporation of India (IFCI) owned by the Finance Ministry's Department of Financial Services.
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1955	National Small Industries Corporation (NSIC) under the Ministry of Micro, Small and Medium Enterprises (MSME).
1955	ICICI: Industrial credit and Investment Corporation of India Ltd was setup by GoI, World Bank etc. Later became a Private Sector Bank.
1964	Industrial Development Bank Of India (IDBI) Act. 2004: Transformed into a Public Sector Bank. 2018: Government sold its majority shareholding to LIC.
2006	India Infrastructure Finance Company Ltd (IIFCL) owned by the Finance Ministry's Department of Financial Services.
2021	National Bank for Financing Infrastructure and Development (NaBFID) Bill, 2021 (बुनियादी अवसंरचना और विकास के वित्त पोषण के लिए राष्ट्रीय बैंक)

13.21.2 DFI → NaBFID: National Bank for Financing Infrastructure and Development

- ⇒ Budget-2021: We'll set up this org with ₹20,000cr capital.
- ⇒ NaBFID will give loans worth ₹5 lakh crore in 3 years.
- ⇒ It'll get funding from RBI, Govt, World Bank and other multilateral Bank, issuing bonds in market etc
- ⇒ As per news reports 1) The govt may make it mandatory for Insurance & Pension companies to invest some ₹ in NaBFID. 2) This org may replace the India Infrastructure Finance Company Limited (IIFCL)
- ⇒ Primary Objective? finance National Infrastructure Pipeline (NIP) project. (Ref: HDT-Pillar#5:Infrastructure)

13.21.3 Non Bank ⇒ All India Financial Institutions (AIFI):



अखिल भारतीय वित्तीय संस्थान were setup by respective acts of Parliament

EXIM (Jan 1982)	NABARD (Jul 1982)	NHB (1988)	SIDBI (1990)
Export-Import Bank of India	National Bank for Agriculture and Rural Development	National Housing Bank	Small Industries Development Bank of India
Boss: Government of India (100%)	Previously RBI had minority-stakes in NABARD but 2018: 100% Govt owned.	Original boss: RBI (100%). But, 2019-Apr: RBI sold 100% to Govt.	Originally 100% owned by IDBI. Later on shareholding transferred → SBI, LIC etc
Promotes cross border trade and investment, helps importers-exports with loans and foreign currency.	- Regulatory supervision: Coop + RRB - + Indirect refinance to farmers, artisans - Operates Rural Infra. Development fund (RIDF)	- Finance to banks and NBFCs for housing projects. - RESIDEX index to monitor	- Operates Credit Guarantee fund, Small Enterprises Development Fund (SEDF). - Operates udyamimitra.in for loans to small entrepreneurs & SME via



		residential real estate prices. - Earlier it was Regulator of Housing Finance Cos (NBFC)**	schemes like Mudra, Stand-up-India.
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- ⇒ ** (Full) Budget-2019: shifted NHB's regulatory powers to RBI.
- ⇒ NABARD Amendment Act 2017: facilitated transfer of RBI shares to Govt.
- ⇒ AIFIs are not 'banks' because can't accept direct deposits from the public at large.
- ⇒ RBI is the regulator over AIFI, BASEL norms applicable but RBI can prescribe different / slabs norms / deadlines. What/why/how? Not IMP.
- ⇒ Atmanirbhar Bharat 2020 → RBI Governor announcements (Mar2May) → Special refinance facility for AIFI → they can borrow more ₹ from RBI → circulate loan towards to agriculture, housing, MSME, foreign trade. (विशेष पुनर्वित्त सुविधा)
- ⇒ 5th AIFI = Industrial Investment Bank of India (IIBI) closed in 2012.

Which of the following grants/grant direct credit assistance to rural households? (UPSC-Pre-2013)

- 1) Regional Rural Banks
- 2) National Bank for Agriculture and Rural Development
- 3) Land Development Banks

Answer Codes: (a) 1 and 2 only (b) 2 only (b) 1 and 3 only (d) 1, 2 and 3

Find Correct Statement(s) (Asked in UPSC-Prelims-2004)

- A. NHB, the apex institution of housing finance in India, was setup as a wholly owned subsidiary of RBI
- B. Small industries development bank of India was established as a wholly owned subsidiary of the Industrial development bank of India
- C. Both A and B
- D. Neither A nor B

13.21.4 FI ⇒ Non-Bank ⇒ Primary Dealers (PD)- (प्राथमिक विक्रेता)

They deal in "primary" market i.e. directly buy fresh G-sec from RBI's E-Kuber platform and sell it in the secondary market. Total 21 PD licensed by RBI: 14 of them are Banks. E.g. Standard Chartered Bank, HSBC (HongKong), SBI, Kotak etc. (Numbers not important)

13.21.5 FI ⇒ NBFCs (गेर-बैंकिंग वित्तीय कंपनियां)



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Registration	Banking Regulation Act	Companies Act
Supervision	RBI	Depends. Mutual funds-SEBI, Insurance Co: IRDAI etc.



Parameter	Commercial Banks	Non-Banking Financial Companies (NBFCs)
Entry Capital	500 Cr.	5cr for MicroFin, 2 cr for others; 200 cr. For reinsurer etc. [figures not imp]
Numbers	13 Public Sector (incl. Post Payment Bank), 56 RRBs, 39 private sectors (including SFB, PB), 44 Foreign Banks.	Total 10,190. Out of them 108 deposit Taking, remaining are non-deposit-taking (ND). [figures not imp]
Can accept Deposits?	- Can accept Time & Demand deposits [also known as chequable deposit]. Sidenote: payment banks- can't accept time deposits. - Their deposits are insured under DICGCI Act.	- Only NBFC-Deposit-Taking (NBFC-D) & even they can accept only Time Deposits. E.g. Bajaj Finance. - Can't issue their chequebook, debit/credit card. - Deposits are not insured under DICGCI Act. More in Pillar#1B1
Prudential Norms सावधानी के मानदंड	CRR, SLR, applicable	- SLR applicable ONLY on NBFC-D. but RBI can prescribe different slabs / norms than banks. - CRR not applicable on any type of NBFC.
BASEL Capital Adequacy Norms, LCR-HQLA norms	Yes, Applicable. More in Pillar#1B2	- Applicable on 108 NBFC-D and - Applicable on 276 NBFCs – ND – SI (non-deposit taking Systematically Important with assets over ₹ 500 crores) e.g. L&T Finance, Chola mandalam etc. But RBI can prescribe different slabs / norms / deadlines.
Investment ग्राहक का पैसा किधर निवेश करते	They can keep depositor's money in RBI approved securities. But can't invest in share market per se, directly.	Can invest clients' money in share market. E.g. Mutual Funds, Insurance Companies.
Loan Interest Rate ब्याज दर	Decided as per RBI's methodology from time to time (BPLR, MCLR, External Benchmark etc.) Ref: 1A1	Varies & depends on nature of biz.
Recovery बकाया राशि की वसूली	Loan recovery powers under SARFAESI Act. More in Pillar#1B2	- Housing Finance Companies have SARFAESI powers. But, all types of NBFCs don't have it. (More in Pillar#1B2)
Consumer Complaints	RBI's Ombudsman, Bank's Internal Ombudsman ** शिकायत निवारण	RBI's separate Ombudsman for NBFCs starting the NBFC-D since 2018**.

**More about these Ombudsman in Pillar#1D: Insurance handout

? Find correct Statement(s) about NBFCs in India [Asked in UPSC-Prelims-2010]

- A. They cannot engage in the acquisition of securities issued by government.
- B. They cannot accept demand deposits like savings account.
- C. Both A and B
- D. Neither A nor B

? The main functioning of the banking system is to [Asked in UPSC-CDS-2013-II]

- (a) accept deposits and provide credit
- (b) accept deposits and subsidies
- (c) provide credit and subsidies
- (d) accept deposits, give credit and subsidies



13.21.6 NBFCs Regulated by RBI (नियंत्रण/देखरेख)

Table 9: no need to remember examples, just observe pattern

Investment and Credit Company (2019)	This New category created by merging previous NBFC categories viz. Asset Finance Companies, Loan Companies, Investment Companies. E.g. SREI Equipment Finance
Core Investment Company (CIC)	- They do long term investment in Companies. E.g. Tata / Birla / Reliance Capital & Infrastructure Leasing & Financial Services Limited (IL&FS) - IL&FS is owned by SBI, LIC and Corporates from Japan and Abu Dhabi. 2018: In controversy because couldn't repay interest to lenders. More in next NPA handout.
Infrastructure Finance Company (IFC) Infrastructure Debt Fund (IDF)	Internal difference notimp for UPSC. Basically, they give loan for infra. projects. - E.g. Rural Electrification Company Ltd. (REC) - L&T IDF, Kotak IDF, IDFC IDF ("IDFC First" has separate license for Bank).
Asset Reconstruction Companies (ARC)	They buy bad loans / NPA from Banks & other NBFCs, and try to salvage value from the underlying assets. E.g Anil Ambani's Reliance ARC.
Factoring Companies	They lend short term money to client against his invoices / accounts receivable. E.g. IFCI Factors, Siemens Factoring.
Gold Loan Companies	e.g. Muthoot gold loan, Mannapuram Gold. RBI decides their Loan to Value ratio (LTV) (More in Pillar#1A2).
Micro Finance Institutions (MFI: सूक्ष्म वित्त संस्थान)	- 2010: RBI's Y. H. Malegam Committee → RBI created a new NBFC category called Micro Finance Institution (MFI) - They give small loans to poor without collateral, flexible EMI. - eg: Bandhan (W.Bengal, separately got PvB license), Dishu (A'Bad: separately got SFB license), SKS (Andhra), Cashpor (UP), Ujjivan (Karnataka). - ES20 appreciated the role of MFI in Helping the weaker section because Majority of its borrowers are women (97%), SC/ST(30%) and minorities (29%) - Who regulates them? RBI + Ministry of Corporate Affairs - Who can borrow from MFI? Ans. Household whose annual income is not more than ₹ 1.25 lakh (rural) or ₹ 2 lakhs (urban). - How much can one person borrow from an MFI? Ans. Not More than ₹ 1.25 lakh. **Before 2019-Oct above limits were lowers.
MUDRA (2015)	- A non-deposit taking NBFC owned by SIDBI. It gives indirect loans to Micro enterprises through PM Mudra Yojana. - More in Pillar1D- Financial Inclusion.
Fintech cos: P2P Lenders	Similar to Olx-Quickr connecting sellers of second hand goods with buyers, the P2P lending websites connect borrowers and lenders. E.g. Faircent.com, Cashkumar.com



Fintech cos: Account Aggregators (AA)	- They manage information of a customer's financial assets & display it to him or to third party (like loan giver, credit rating company & Apps) - 2018: RBI gave license to 5 cos- NeSL, Cookiejar etc.
Fintech cos: Loan Aggregators (ऋण समूहन)	- E.g. Loanadda.com, Moneytap.com, Loanbazaar, Paisabazaar etc. - 🤖 Challenges? Often these digital platforms that act as outsourced agents of banks/NBFCs to sell loans. - But, customers face difficulty in complaint/grievance redressal. - Now even Google Pay app developing features for loans. So RBI has expressed its displeasure and is presently working on rules to fix this.
Residuary (अवशिष्ट)	Any NBFC not regulated by any other regulator- falls under RBI's purview.

13.21.7 🚫🏠👤 NBFCs Regulated by SEBI 🐱📄 (More in Pillar#1C)



Stock Broker	- They help clients buy-sell shares and bonds (=debentures) depending on his instructions E.g. Motilal Oswal, Indiabulls, Sherkhan, Karvy etc. - 2019: Karvy Stock Broking transferred clients money & shares into its own group company Karvy Realty without clients' consent, so SEBI banned Karvy.
Mutual Funds (MF)	- They pool clients' money and MF-manager invests it in shares/bonds using his own discretion & expertise. - E.g. SBI's Shariah Equity Mutual Fund: clients' money invested in Sharia compliant Cos. That don't deal with alcohol, pork, debt, tobacco or weapons.
REITs / InvITs	- Pool & invest money in real estate / infra projects e.g. IRB. <📄 More in Pillar#1C: SEBI Handout>
Investment Banks: (USA) & Merchant Banking Companies: (UK term)	Underwriting, Merger & Acquisition, Wealth Management of rich people: E.g. Kotak Mahindra, Citigroup, Bank of America, DSP Merrill Lynch, Morgan Stanley, SBI capital
Venture Capital Fund	VCF Help startup companies via equity finance e.g. IFCI-VCF, IDG-VCF

13.21.8 🚫🏠👤 NBFCs Regulated by Others 🐱



Regulator	Example NBFC Companies
IRDAI (📄 More in Pill1D)	Insurance Regulatory and Development Authority (IRDAI) regulates: - 1) Life Insurance companies e.g. LIC, HDFC Standard Life Insurance - 2) Non-Life (=General) insurance companies e.g. IFFCO-Tokyo General Insurance. - 3) Policy aggregator platforms such Policybazaar.com



PFRDA (📖 More in Pillar1D)	Pension Fund Regulatory and Development Authority (PFRDA) regulates all Pension Funds, except EPFO & other statutory funds.
National Housing Bank (NHB)	- Housing Finance Companies such as DHFL, Muthoot Housing finance etc. - They were regulated by NHB but after (Full) Budget-2019, this category's regulation handed over to RBI.
Ministry of Corporate Affairs	1. NIDHI Companies: Mutual benefit club, only members can borrow. e.g. South Madras Benefit Fund Ltd, Maben Nidhi Ltd (of Mannapuram group) 2. Microfinance Companies: learned in previous section.
State Registrar of Chit Funds	Chit fund is a type of collective investment scheme with monthly contributions & borrowing by contributing members e.g. Shriram Chits. (Ref 📖 Pillar#1D)

13.21.9 🚫(🚫📖): NBFC: Shadow Banking (आभासी / प्रतिछाया बैंकिंग प्रणाली)

- ⇒ 📖📖ES20 observed: Shadow banking is a set of activities and institutions. They operate partially (or fully) outside the traditional commercial banking sector. They are not fully regulated by the RBI. ये संस्थाएँ पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती हैं।
- ⇒ A shadow banking system can be composed of a single institution or multiple entities forming a chain.
- ⇒ They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (=Non-convertible debentures)

Table 10: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	- Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies). - e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds
Retail-NBFCs	Retail Non-Banking Financial Companies such As Gold Loan Companies, Asset Finance Companies etc.

Shadow banking system's assets are risky. Sometimes they can't honour their obligations/bond repayments. It results into severe crisis, as seen in the ILFS crisis (2019). (उनकी संपत्तियाँ जोखिमपूर्ण होती हैं)

📖 More on Shadow banks in Pillar1B2: → ILFS crisis.

13.21.10 🚫NBFC-not allowed in India: Islamic Banking

- Interest (*Riba*) is prohibited (Haram) in Islam. So, Islamic Banking operates through *Ijara*, *Murbaha*, *Musharaka* mechanisms- in which depositors' money is invested in borrower's property / business and returns are shared in form of rent / profit but not in the form of Interest.
- While previous committees said give permission to Islamic Banks in India, but RBI is opposed (2017).
- 2017: Kerala Govt allowed opening of a Islamic Bank by registering it as "co-operative society", so as to avoid the RBI's ban. But further, legal controversy notimp. 🏠👉
- 📖👉**Pro-Arguments?** Financial inclusion of Minorities/Muslims. अल्पसंख्यकों का वित्तीय समावेशन

🗨️**Anti-Arguments?**

- Specialized Manpower required. Secular India's PM-Jan-Dhan Yojana & Post Office Payment bank efforts are sufficient. (बैंक-बचत की धर्मनिरपेक्ष सेवाएँ उपलब्ध. अलग से एक धर्म विशेष के लिए वित्तीय सेवा अनावश्यक)
- USA authorities claim it's used for terror finance & money laundering. (आतंकी वित्तपोषण, काले धन को वैध बनाना)



13.21.11 Informal Financial Intermediaries (अनौपचारिक वित्तीय मध्यस्थ)



- They provide loans without KYC, PAN or Aadhar card, formal documentation but require Property/Vehicle/Home/Goods/Crop/Gold etc. as collaterals/pawn. (संपत्ति गिरवी रखवा के कर्ज)
- They charge very high compound interest rates & use muscle power for recovery (ऊँचे ब्याजदर, वसूली के लिए धमकाना-बलप्रयोग करना.)
- For every Rs.100 borrowed by a rural household, 33% from informal money lenders, 25% from cooperative banks, 25% from commercial banks, and remainder from friends-family etc. (2012 data)
- They don't fall under RBI purview, but State Govts have individual laws to regulate them e.g. Bombay Moneylenders Act 1947, Kerala (1958), Gujarat (2011). These laws require such informal lenders to register, impose ceiling on the interest rate & prohibit strong-arm tactics. (रिजर्व बैंक की निगरानी में नहीं किंतु राज्य सरकारों ने नियंत्रण के लिए कानून बनाएँ- पंजीकरण, ब्याज की महत्तम सीमा निर्धारित करना, बलप्रयोग/जबरन वसूली पर रोक)

Types →	Indigenous Banker (देशी बैंकर)	Moneylender / Brokers
<i>Medieval time known as →</i>	Shroff, Shikarpuri, Chettiar, Marwari, Aiyar, Rastogi	Kabuli Pathan, Quistwala, Arhatia, Village Bania, Soni, Mahajan & Seth, Pawnbrokers, Financial Brokers
<i>Money mobilization → पैसा कहां से लाते हैं</i>	They used to mobilize money from Public via: 1) Hundi: bill of exchange; 2) Commercial bills	They use their own money (or sometimes some villain's black money- स्वयं का पैसा कर्ज पर देते या किसी भ्रष्ट नेता अफसर का काला धन कर्ज पर घुमाते)

13.21.12 Mock Questions for Mains

1. “Discuss the evolution / structure / function / objective of particular FI” - is a too simplistic Mains Question for UPSC. These institutions/initiatives have to be seen in the context of GDP/Economic Growth, Investment/NPA-Bad loans, Inclusive growth/Financial Inclusion. So, indirectly you may use'em as fodder points in such questions.
2. “Suggest reforms for public sector bank, discussion their success after nationalization” etc. = Those topics are still half-finished until we study Pillar#1B2: Bad loans, BASEL and other burning issues in the banking sector.

 Next HDT:  1B2: Burning Issues in Banking: Bad Loans, NPA, IBC, SARFAESI, BASEL etc.



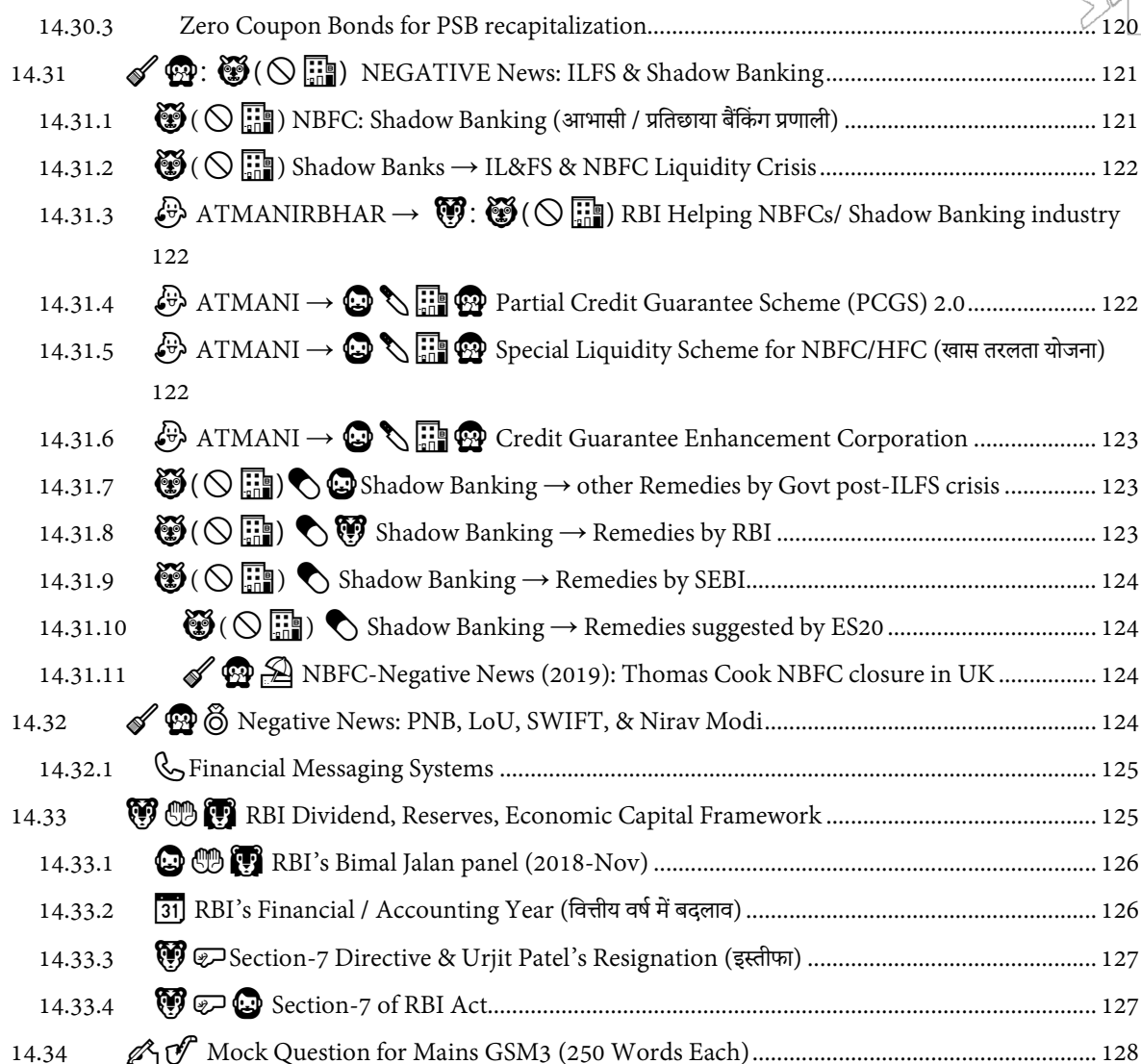
Pillar#1B-2: Bad loans & other Burning issues in Banking sector

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14.11 TYPES OF LOANS: BASED ON INTEREST RATE

Fixed Interest Loan (निश्चित ब्याजदर का ऋण)	 Floating Interest Loan (चलायमान)
e.g. Short-term crop loans upto ₹3 lakh for farmers at fixed Interest 7%. This interest rate will not be changed throughout the loan tenure.	e.g. (External Benchmark) + spread + risk premium = 12% originally. (Ref#1A2MonPol) But benchmark is regularly updated. So resultant interest rate may increase or decrease throughout the tenure of loan.
	Teaser Loan: A sub-type of Floating interest rate loan, wherein initial years have low interest, but afterwards- higher interest rate. While RBI has not banned Teaser loans but has put stricter regulations on them from 2011.



14.12 ✍️ TYPES OF LOANS: BASED ON BORROWERS

Table 2: Type of Borrowers

Prime Borrower	He has the capacity to repay loans.
Subprime Borrower (Individual)	Such person doesn't have the capacity to repay loan. Giving teaser rate home loans to sub-prime borrowers was among the reasons for Sub-prime Crisis in USA (2007-08), which ultimately led to Global Financial Crisis (GFC). (More in Pillar#3).
Overleveraged Borrower (Company)	Such company has borrowed too much money than its ability to pay it back. An Overleveraged company has high ratio of Debt (Bonds/loans) to Equity (Shares). वापस करने की क्षमता से भी अधिक कर्ज ले लिया है
Zombie Lending	When a weak bank keeps giving new loans to a subprime / overleveraged borrower. कमजोर बैंक, कमजोर कर्जदार को लोन देता रहे है

Why is the offering of "teaser loans" by commercial banks a cause of economic concern? (UPSC-Pre-2011)

- The teaser loans are considered to be an aspect of sub-prime lending and banks may be exposed to the risk of defaulters in future.
- In India, the teaser loans are mostly given to inexperienced entrepreneurs to set up manufacturing or export units.

Answer Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 or 2

14.13 ✍️ 💀 NON-PERFORMING ASSETS (अनर्जक परिसंपत्तियाँ)

14.13.1 ✍️ 💀 - 🤔 - 😞 - 🏦 NPA / TBS Problem: Three Stages of

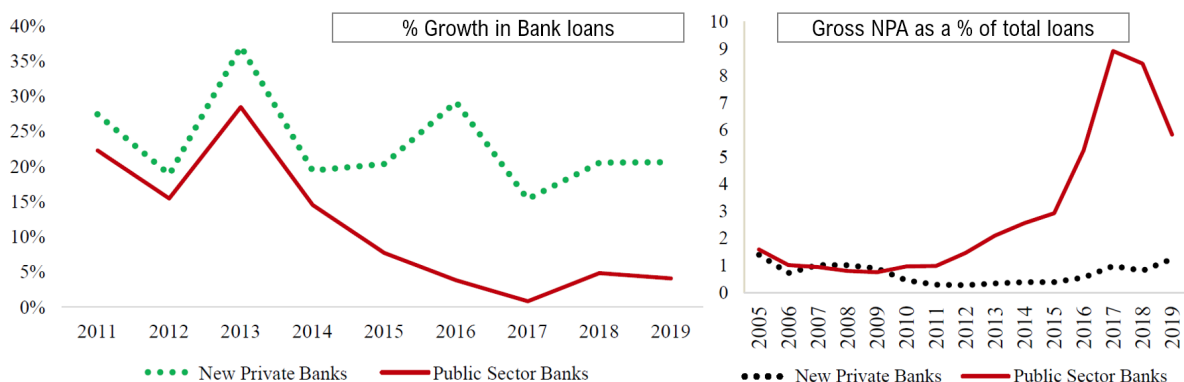
- Till mid-2000s:** Boom period in global economy. Indian Corporates were taking large amount of loans & became overleveraged. (भुगतान की क्षमता से बड़ा लोन लेना)
- From 2007-08:** Subprime & Global Financial Crisis (GFC: वैश्विक आर्थिक संकट): Indian exports . UPA govt's policy paralysis & judicial activism, environment activism (नीतिगत पक्षाघात और न्यायिक सक्रियता, पर्यावरण सक्रियता) $\Rightarrow$ projects delayed. Companies began facing difficulties finishing projects & repaying loans.
- By 2013:** $\sim 1/3^{\text{rd}}$ of the bank loans were owned by "IC1 companies" i.e. companies with interest coverage ratio less than 1, meaning they were not generating enough revenue even to repay the loan interest. (IC > 1 is good and IC < 1 is bad.)

Thus, balance-sheets of (1) some Large Corporates Companies & (2) Public Sector Banks (PSB) became weak. It is called "Twin balance sheet syndrome (TBS)" [दोहरे तुलनपत्र की समस्या] by Economic Survey 2015-16.

What is the importance of the term "Interest Coverage Ratio" of a firm in India? (Prelims-2020)

- It helps in understanding the present risk of a firm that a bank is going to give a loan to.
- It helps in evaluating the emerging risk of a firm that a bank is going to give a loan to.
- The higher a borrowing firm's level of Interest Coverage Ratio, the worse is its ability to service its debt.

Answer Code: (a) 1 and 2 only (b) 2 only (c) 1 and 3 only (d) 1, 2 and 3



ES20: NPA had reached its peak in 2018 but now it appears to be declining because of various measures taken by Government and RBI.

ES21: NPA declined (2020-March-Sept) mainly due to RBI Loan Moratorium.

14.13.2 🦋💀 NPA related definitions in Banking Sector

Std. Assets	Loan account where borrower is repaying the principal and interest in timely fashion. (आदर्श परिसंपत्तियां= नियमित ब्याज मुद्दल/ मूलधन मिला)
SMA-0	If loan principal or interest unpaid for 1-30 days from its due date, then such loan account is classified as Special Mention Account-0 .
SMA-1	31-60 days
SMA-2	61-90 days
🦋💀 NPA अनर्जक परिसंपत्तियां या गैर-निष्पादित परिसंपत्तियां	- If loan principal or interest is not paid for more than 90 days from its due date, then such loan account is classified as Non-Performing Asset (NPA). किश्त जमा करने की नियत तिथि/तारीख के ऊपर भी 90 दिनों से अधिक हो चुके हो किन्तु किश्त जमा नहीं की गयी तो.... - For the farm loans, NPA is not counted on number of days but on number of cropping seasons. कृषि ऋण में महीनों के हिसाब से नहीं फसल की मौसम/ऋतु के हिसाब से होता है - Indian Commercial Banks' (Gross) NPA approx. ₹8 lakh crores: within that PSB (₹6 lakh cr) > private Sector banks (₹2lakh cr) [As of 2020-Sept
Provisioning प्रावधानीकरण	As per RBI norms, banks must set aside funds to cover losses against their NPA. Such 'provisioning of funds' 📉 decrease profitability of the Bank.
Gross NPA	Gross non-performing assets (GNPA: सकल एनपीए)= grand total of all NPA loans(कुल योग) 2020-Sept: sectors with highest % GNPA= 1) Industries (within that, infrastructure, metal, electricity) > 2) Agriculture > 3) Service Sector > 4) Retail Loans
NET NPA	NET NPA (शुद्ध एनपीए) = GNPA Minus Provisioning 🏠👉 WHATITMEANSNOTIMP
Substandard asset	When loan account remains in the NPA classification for 12 months/> (रद्दी/घटिया परिसंपत्तिया)
Doubtful	When loan account in substandard classification for 12 months/>
Loss Asset	When a bank, its auditor or RBI declares that given doubtful asset has little / no salvageable value. (नीलामी करके भी नुकसान भरपाई असंभव)
Loan write-off	When loan is written off from the 'asset-side' of the bank balance sheet, to save corporation tax (How? = we-are-not-here-for-CA-exam). Loan write-off doesn't waive bank's right to recover that bad loan, it's merely an accounting exercise for tax-benefits.

Restructured loan	When principal / interest rate / tenure of the loan is modified. Banks may do it when borrower facing difficulty in repaying loans. (पुनर्गठित कर्ज / ऋण)
Stressed Asset	NPA + Loans Written-Off + Restructured Loans = Stressed Assets (तनावपूर्ण संपत्ति)
OTS with Haircut	If bank allows the borrower to pay 60% of dues & forgoes 40% as loss, then bank has offered "Onetime Settlement (OTS) with 40% haircut" कर्ज का कुछ हिस्सा बैंक खुद ही नुकसानी समझकर माफ कर दे
Evergreening of loans	When a borrower taking a new loan to pay off his old loan. पुराना कर्ज चुकाने के लिए नया कर्ज लिया

14.14 🧐🔪👉 ATMANIRABHAR → LOAN/EMI/NPA RELIEF / MORATORIUM

- ⇒ (ऋण अदायगी पर रोक) IF a loan is outstanding as of THEN **2020-March**: RBI allowed moratorium/suspension of loan repayment for 6 months for March, April, May, June, July, Aug.
- ⇒ This applies to: All commercial banks (including regional rural banks, small finance banks and local area banks), co-operative banks, All-India Financial Institutions, and loan giving NBFCs (such as housing finance companies and micro-finance institutions)

2020	How loan moratorium/suspension works
March	Suppose there is due date for monthly loan instalment but borrower opts for moratorium so he need not pay principal/interest.
April to Aug	Same as above
Sept	Due date for monthly loan instalment AND borrower needs to Pay.
Oct	Due date for monthly loan instalment AND borrower needs to Pay.
Nov	Due date for monthly loan instalment AND borrower needs to Pay.
Dec	⇒ IF borrower stopped paying loan instalments since Sept's due date, then by this time it'll have crossed 90 days from due date. ⇒ And we know that Non-Performing Asset (NPA: अनर्जक परिसंपत्ति) = if principal or interest unpaid for more than 90 days from due date. ⇒ So, this account will be classified as Non-Performing Asset (NPA). ⇒ However, if we look from March to Nov = total 9 months or 270 days no loan is classified as NPA.

14.14.1 🧐🔪👉 Loan Moratorium: how it benefits borrower (उधारकर्ता को फायदा)

- ⇒ If his income ⬇️ due to Corona, he gets relief from Equated Monthly Instalments (EMIs) for "X" months. (It's not compulsory to skip EMI. Borrower can repay loan regularly, if his financial situation is sound.) इन महीनों में किस्ते भरना अनिवार्य नहीं होगा
- ⇒ 😊 **Benefits to Bank?** Unpaid loan doesn't accumulate under the 'NPA' category for a bank. So, it helps banks in following ways:
- ⬇️ Provisioning → profitability ⬆️ (📊📊 ES21 said this happened in both PSB & Pvt Banks)
 - ⬇️ obligations in BASEL-III Capital norms. (Because if ⬆️ NPA → bank will have to arrange more capital to comply with BASEL-III Norms)
- ⇒ 🧐 **Challenge / controversy?** (चुनौतियां/ नुकसान)
- ✓ If he doesn't pay for "X" months, then Banks will continue to charge interest (on those "X" months) and add it to the total outstanding loan → compound interest rate system → his total burden may ⬆️ (अगर आप किश्ते नहीं भर रहे, तो बकाया ब्याज के ऊपर ब्याज चढ़ता जाएगा/ चक्रवृद्धि ब्याज)

- ✓ **SC PIL:** interest should be waived. But RBI opposed, because if borrowers don't pay interest, then how can banks give interest to depositors for their deposits. Banking system will become unsustainable! (उच्चतम न्यायालय में जनहित याचिका की यह ब्याज की रकम माफ हो जाए)
- ✓ **2020-Oct:** Govt informed SC, "we'll pay interest on the interest for those 6 months for loans upto ₹2 cr <REF: next section>" (उन छः महीनों में बकाया ब्याज के ऊपर जितना ब्याज चढ़ेगा वह हम अदा कर देंगे)

14.14.2 🧑🏫🧑🏫🧑🏫🧑🏫🧑🏫 **Loan Moratorium: Interest Relief Scheme** (बकाया ब्याज के ऊपर चढ़ने वाले ब्याज पर रियायत)

⇒ **Technical name:** COVID 19 Ex-Gratia to borrowers for difference in interest.

⇒ **Boss?** FinMin → Dept of Financial Services

⇒ **Eligibility?** ☒ **ALL** Borrowers who had taken following types of loans up to ₹2 crores (including credit card dues) as on 29 February, 2020.

✓ Eligible	🚫 NOT eligible (पात्र नहीं है)
loan must be taken from a formal financial intermediary such as Bank, NBFC, MicroFinance Institution (औपचारिक वित्तीय मध्यस्थ)	🚫 loans from informal money lenders e.g. Shroff, Baniya, Sahukar
MSME Loans, Education loans, Housing Loans, Consumer Durable Loans, Credit Card Dues, personal /Consumption loans (e.g. marriage etc social ceremonies ke liye loans).	🚫 if loan account classified as "Non Performing Asset (NPA)" as on 29.02.2020.
Automobile Loans: two wheeler, rickshaw, taxi, car, truck etc.	🚫 if tractor and crop loans. (govt has different technical schemes to help such farmers)
It doesn't matter If you (A) opted for the Moratorium or (B) did not opt for moratorium. Both types of borrowers are eligible. आपने ब्याज भर दिया हो तो भी सरकार आपको लाभ देगी	--

⇒ In these eligible accounts → Government will deposit the interest on interest during the moratorium period. In other words, "difference between the compound interest and simple interest to all borrowers with loans up to Rs 2 crore for the six-month period will be reimbursed."

⇒ कोरोना महामारी में, कर्जदार को राहत के लिए रिजर्व बैंक ने लोन-किश्तों की अदायगी पर रोक की अनुमति दी थी। किन्तु, यदि किसी ग्राहक ने 6 महीनों तक किश्त न चुकाई हो तो उसके बकाया ब्याज के ऊपर ब्याज चढ़ते रहता था। सरकार उस 'ब्याज के ऊपर चढ़े ब्याज' की रकम ग्राहक के बैंक-खाते में जमा करेगी।

👉 How exactly does it work? What are the formulas and calculation methodologies? REF FAQ
<https://financialservices.gov.in/whats-new> not important for exam. # ⏰ थोड़ा-पढ़ो-आगे-बढ़ो

14.15 🐯🔪🔪 RBI “3R” FRAMEWORK FOR REVITALIZING STRESSED ASSETS (2015-19)

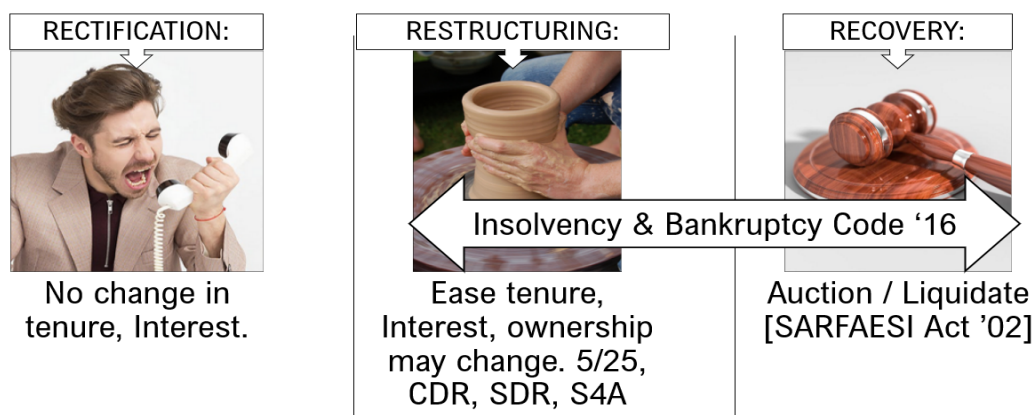


Figure 1: तनावग्रस्त परिसम्पत्तियों को पुनर्जीवित करने हेतु आरबीआई का ढांचा: 2019 से पहले का

14.15.1 ✓ Rectification (सुधार)

- ⇒ 2015: RBI ordered the Banks to conduct Asset Quality Review (AQR: परिसंपत्ति गुणवत्ता समीक्षा) and begin rectification of bad loans i.e. Bank doesn't change in loan interest, tenure or terms, but asks client to rectify his irregularity in loan-repayment.
- ⇒ In genuine case, additional loan may be given. Bank may also try to find a new partner / investor for reviving the project. बैंक अतिरिक्त कर्ज दे सकता था, नया निवेशक ढूँढने मदद कर सकता था।

14.15.2 🗡️ Restructuring (पुनर्गठन: ब्याज दर या कर्ज चुकाने की अवधि या मालिकी में बदलाव)

- **Restructuring** = Changing the loan interest (%) or tenure or ownership. it consisted of following schemes:
- **5/25 for Infrastructure loans:** RBI allowed banks to extend infra-loan tenure upto 25 yrs, & even 📉 loan interest rate. But such interest rate will be reviewed each 5yrs.
- **CDR: Corporate Debt Restructuring:** For non-infra corporate loan- features similar to above.
- **SDR: Strategic Debt Restructuring (रणनीतिक ऋण पुनर्गठन) Scheme:** Bank's Debt (Loan) is converted to Equity (Shares) & bank sells it to highest bidder ⇒ company's ownership may change. Scheme unsuccessful as it required the approval of existing shareholders.
- **S4A - Scheme for Sustainable Structuring of Stressed Assets (तंगहाली आस्तियों की संधारणीय संरचना):** Similar to aforementioned SDR. Technical differences between SDR & S4A not important. # 📉 थोड़ा-पढ़ो-आगे-बढ़ो
- **JLF- Joint lenders forum (ऋणदाताओं का संयुक्त मंच):** Consortium of the lenders, who will work out aforementioned restructuring methods. But, proved unsuccessful because PSB Officials would not vote positively due to the fear of Media & 4C [Courts, CBI, CAG and CVC].

14.15.3 🗡️ Recovery (वसूली)

Bank liquidates loan-defaulter's assets under either of the following acts: (संपत्तियों की जब्ती और नीलामी)

- 1) SARFAESI Act 2002 (सरफेसी अधिनियम) OR
- 2) Insolvency and Bankruptcy Code 2016 (शोधन-अक्षमता एवं दिवालियापन संहिता 2016)

📌 ? 'Scheme for Sustainable Structuring of Stressed Assets (S4A)' is related to: (UPSC-Prelim-2017)

- a) procedure for ecological costs of developmental schemes.
- b) **scheme of RBI for reworking the financial structure of big corporates with genuine difficulties.**
- c) disinvestment plan for Central Public Sector Undertakings.
- d) Provision in 'The Insolvency and Bankruptcy Code'.

14.15.4 📌🔑 RBI's 'Feb-12' Circular (2018) & Prudential Framework (2019)

- ⇒ Using the powers of RBI Act, RBI issued a circular on 12th Feb 2018. It discontinued CDR, S4A, SDR etc. henceforth IBC to be main tool. 1-day default norms, lenders to immediately start resolution, IF resolution not finalized in 180 days then liquidation. Penalties for noncompliance.
- ⇒ **2019-April:** SC declared it ultra-vires (कानूनीसीमा से बाहर) because not consistent with provisions in RBI Act.

2019-June: Consequently, RBI released Prudential Framework for Resolution of Stressed Assets Directions 2019 (तनावग्रस्त परिसंपत्तियों के दिशा-निर्देशों के लिए विवेकपूर्ण रूपरेखा)

- ⇒ RBI applied it on Banks, AIFI and selected categories of NBFCs- using the powers under Banking Regulation Act (1949) and RBI Act (1934).
- ⇒ It discontinued CDR, S4A, SDR, JLF etc. henceforth IBC to be main tool.
- ⇒ If principal / interest is overdue for 1-30 days, classify loan account as SMA-0. Then, within 30 days, the lender shall review the loan account, & initiate resolution process (RP). (Previous Feb-12 circular required lenders to start RP within 1-day of SMA-0.)
- ⇒ It framed rules to facilitate **Sashakt** approach #1 and #2-inter-creditor agreement (ICA).
- ⇒ Lenders must upload data of ₹5 crore /> loans to RBI's CRILC portal on weekly basis.
- ⇒ Forbids loan restructuring for borrowers who have committed frauds/willful default in past. Forbids evergreening of stressed loans.

👉🤔 most of above directives were suspended / postponed in Corona so don't lose sleep

14.15.5 📌🔑 RBI's KV Kamath Report Resolution Framework for Covid19-related Stress

2020: RBI had setup this Committee to look into **loan restructuring for large companies**, who are hit by Corona pandemic. KV Kamath identified 26 vulnerable sectors (e.g. power, construction, steel, road, cement etc..) He and gave various technical guidelines for loan restructuring. But as such not enough MCQ worthy stuff. # 🤔 थोड़ा-पढ़ो-आगे-बढ़ो

14.16 📌🔑 SARFAESI ACT 2002: ORIGIN, OBJECTIVE & LIMITATIONS

कर्ज नहीं चुकाया तो संपत्ति की जब्ती और नीलामी करने के लिए कानून

- ⇒ **1991: Narsimham-I** Committee on banking sector reforms observed that borrowers obtain stay orders from ordinary courts = banks have difficulty recovering NPA. So, Debt Recovery Tribunals (DRT: ऋण वसूली न्यायाधिकरण) were set up (1993)= ordinary courts can't interfere in the loan recovery process.
- ⇒ **1998: Narsimhan-II** Committee observed that DRTs need to be strengthened with a law, so, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act enacted in 2002. [प्रतिभूतीकरण और वित्तीय आस्तियों का पुनर्गठन और प्रतिभूति हित को प्रभावी करने का अधिनियम 2002]
- ⇒ Under SARFAESI act, lenders can attach the mortgaged assets when loan is not repaid. They can change board of directors in such companies, can auction such assets, can also sell such assets to **Asset Reconstruction Companies (ARC, NBFC: परिसंपत्ति पुनर्निर्माण कंपनी)**. SARFAESI not applicable on farm loans.
- ⇒ If loan-defaulter wants to obtain a stay order, he cannot go to ordinary courts. He will have to approach for DRT. If DRT doesn't help then ⇒ higher appeal to Debt Recovery Appellate Tribunal (DRAT: ऋण वसूली अपील न्यायाधिकरण), but DRAT will require him to deposit minimum 50% of the loan dues (to discourage frivolous appeals). ⇒ higher appeal to high court.

14.16.1 🗣️🔍👤📌 Which lenders have SARFAESI powers?

- ✓ All types of Banks
- ✓ Housing Finance Companies (HFCs)
- ✓ if an NBFC fulfills two conditions SIMULTANEOUSLY:
 - 1) The NBFC having asset size of ₹100 cr or more, AND
 - 2) loan given is at least ₹50 lakhs. [📅 Budget-2021 reduced minimum limit to ₹20 lakh]
- ✓ For example Bajaj Finserv, Reliance Capital, Muthoot Finance, IL&FS.

14.16.2 🗣️🔍👤📌 SC Judgement: Yes, Cooperative banks also have SARFAESI powers (2020)

- ⇒ Constitution: 7th Schedule → Union List: (संविधान की 7वीं अनुसूची → संघ सूची)
- **Entry 43:** Incorporation, regulation and winding up of trading corporations, including banking, insurance and financial corporations, but not including co-operative societies.
 - **Entry 45:** Banking.
- ⇒ 2007: A court judgments said “Union’s SARFAESI Act doesn’t apply to Cooperative banks. Because cooperative banks are outside the law-making power of the Union as per the Entry 43.”
- ⇒ 2020-May: Supreme court finally clarified the matter: “Entry 45: banking involves all types of banks- both commercial and cooperative banks. Therefore, when the Union made the SARFAESI Act to empower the banking sector, → same powers are also available to Cooperative banks.” सहकारी बैंक भी इस कानून का इस्तेमाल करके कर्जदार की संपत्ति जप्त कर सकते हैं

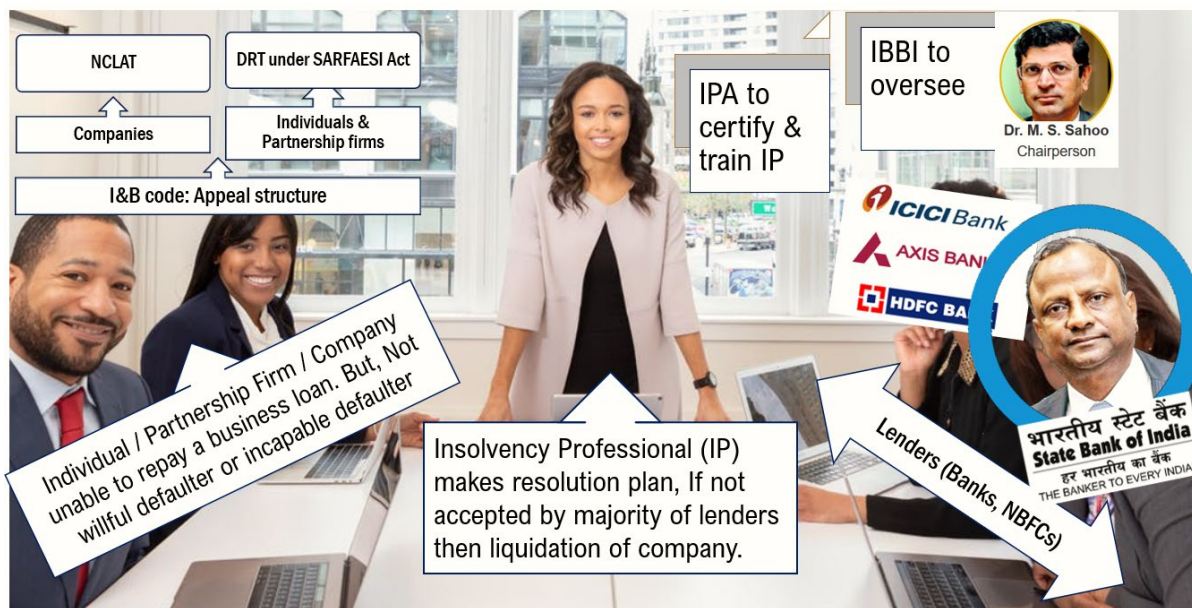
14.16.3 🗣️🔍👤📌 Limitations of SARFAESI Act (मर्यादाएं)

- 🤖 The DRTs & DRATs are **understaffed**. 1 lakh+ **cases pending** (2016), so, case will go on for years and the debtor will remain in possession of asset. जजों की कमी के चलते केस निपटान की प्रक्रिया बहुत धीमी है
- 🤖 This leads to erosion of asset-value (machinery, vehicles) even when DRT allows auction at a later time. गाड़ी/ मशीन की जल्दी नीलामी नहीं होगी तो उसके मूल्य में और गिरावट आती है
- In some businesses, auction or liquidation may not yield the best returns for the banks e.g. hotel resort in remote area, where no other hoteliers are keen to invest. हर प्रकार की संपत्ति की नीलामी में अच्छी बोली लगाने वाली मिल जाए यह जरूरी नहीं
- In such cases, if the loans were restructured (i.e. reducing % interest rate, extending tenure, finding new partners), then banks could salvage more value. इसलिए नीलामी की वजह है अगर कुछ समझौता किया जाए तो बेहतर
- But, SARFAESI act **doesn’t facilitate such arbitration** (मध्यस्थता) So, Govt. came up with a new law: IBC



14.17 INSOLVENCY AND BANKRUPTCY (I&B) CODE 2016

शोधन-अक्षमता एवं दिवालियापन संहिता 2016: कर्जदार का लेनदार के साथ समझौता/मांडवली करवाने के लिए



⇒ IBC code classifies creditors into two categories

- **A) Operational Creditors (OC)** = Suppliers, contractors, salaried employees etc. (कार्यसंबंधी लेनदार : जिन्होंने कंपनी को कुछ वस्तु/सेवा मुहैया कराई थी लेकिन उस पर पैसा बकाया है)
- **B) Financial Creditors (FC)** = banks, NBFC, bond & other debt security holders, + Home buyers. (वित्तीय लेनदार).

⇒ IF an Individual or Partnership firm or Company defaults on a **business loan** of ₹ “X” lakh or more, then, above types of creditor(s) approach National Company Law Tribunal (NCLT: राष्ट्रीय कंपनी कानून अधिकरण), to initiate proceedings under the I&B Code.

- NCLT has over 10 benches across India. Also has facility for e-filing of applications.
- NCLT must accept/reject application within 14 days.
- If NCLT accepts the application, then it will grant moratorium (पाबंदी) of 180-270 days so no other lender can unilaterally attach assets under SARFAESI Act.

⇒ Within that period, an Insolvency Professional (IP: शोधन-अक्षमता संबंधी पेशेवर) will make a resolution plan e.g.  loan interest, extend loan tenure, or IP could even find another investor to finance the pending project etc.

⇒ IP will present the plan to Committee of Creditors (CoC: लेनदारों की समिति) made up of the Financial Creditors (FC). In this Committee, FCs' voting power is based on the quantity of loans given by them.

⇒ If x% of the FCs agree with such resolution plan, then it will be set in motion, otherwise, IP will liquidate (परिसमापन) the assets to recover the dues.

⇒ Appeal Structure?

- A. If Borrower is individual / partnership firm: @DRT → DRAT of SARFAESI Act. OR
- B. If Borrower is a Company: @ National Company Law Appellate Tribunal (NCLAT: राष्ट्रीय कंपनी कानून अपील न्यायाधिकरण) of the Companies Act.

14.17.1 IBC Not applicable on following borrowers

(इन कर्जदार को इस कानून में समाधान का लाभ नहीं मिलेगा)



- ⇒ **Wilful Defaulter** (जान-बूझकर बकाएदार): A borrower who has the capacity to repay, but he's not repaying the loan. E.g. Vijay Mallya was declared willful defaulter by SBI (2017). OR
- ⇒ **Incapable Defaulter** (असमर्थ बकाएदार): A borrower whose loan account is in NPA for more than a year, and he has no capacity to repay even partial loan amount. (जिसकी औकात ही नहीं लोन चुकाने की, उसके साथ क्या समझौता करोगे?)

Above two categories of borrowers are not eligible for I&B resolution process. Their assets will be directly liquidated under SARFAESI Act. (उनकी तो बस संपत्ति जप्त करके नीलामी होगी, इनके साथ कोई समझौता किया नहीं जाएगा)

14.17.2 **Insolvency and Bankruptcy Code Amendment (2018: संहिता संशोधन)**

- ⇒ RERA registered building (home & office) buyers are classified as 'financial creditors'. So, if builder unable to finish project, unable to repay the loans to banks → homebuyers will have voting power in the I&B resolution process. (More RERA in Pill#6)
- ⇒ It the voting requirements for faster resolution:

Lenders' Voting requirements (ऋणदाताओं का प्रस्ताव के समर्थन में मतदान)	Before	After
Routine decisions (सामान्य निर्णयों के लिए)	75%	51%
Key decisions like appointing IP, extending deadlines for resolution process, approving the resolution plan (महत्वपूर्ण निर्णय के लिए)	75%	66%
Withdrawing resolution plan from NCLT	Not IMP	90%

14.17.3 **IBC Code (first) Amendment Act (2019: संहिता संशोधन)**

2019-Aug: it was passed by Parliament, with following features

- ⇒ Must finish entire process within 330 days, instead of earlier 180-270 days walli limit.
- ⇒ If too many FCs (e.g. homebuyers): they may appoint a representative (प्रतिनिधि) for to attend the Committee of Creditors on their behalf, for smoother & systematic conduct of meeting.

14.17.4 **IBC Code (second) Amendment Act 2019**

2019-Dec: introduced in parliament, with following features:

- ⇒ IBC complaints can be made only if the loan amount is minimum "x" or minimum lenders are "y". This is to **discourage frivolous complaints** by lenders. (यदि बकाया ऋण की रकम मामूली हो तो शिकायतों को रोकना)
- ⇒ If the government had given any license, permit, registration etc. then it'll not be cancelled while IBC proceedings are going on. (e.g. if a liquor company's license was cancelled while ongoing case → no fresh investor would come → business can NOT be revived!).
- ⇒ **Ring-fencing from any risk of criminal proceedings:** (पुरानी आपराधिक कार्यवाही के सामने नये निवेशक की किलेबंदी/मुक्ति) = After IBC restructuring, if a new partner joins/takes over in the business, he'll be given immunity from criminal proceedings against offences committed by previous promoters.
- ⇒ Plus, many other technical changes but poor cost-benefit chasing them. It shows that IBC is a 'work in progress'...many operational difficulties= govt has to keep changing the norms/amendments. This is a 'criticism/ shortcoming' of IBC act. बार बार इस कानून में सुधार करने की जरूरत..एक तरह से इसकी खामी है।

14.17.5 **IBC Pre-Packs (Proposed, yet to implement)**

- ⇒ IBC's Formal process: lenders file complaint to NCLT → Insolvency professional appointed → Loan restructuring proposal → If NOT approved by lenders → Auctioning. (औपचारिक प्रक्रिया कुछ इस तरह से होती है)
- ⇒ Pre-packaging = Borrower company informally (discreetly) negotiates a resolution plan with its lenders / buyer-parties who may be interested in its action, before approaching IBC/NCLT process. (प्री पैकिंग =



विधिवत रूप से कोर्ट/कानूनी प्रक्रिया शुरू होने से पहले ही अनौपचारिक रूप से कर्जदार कंपनी अपने कर्जदाता तथा भविष्य की नीलामी में रुचि रखने वाले खरीदारों से पर्दे के पीछे/बंद दरवाजे में चुपचाप समझौता कर कर ले.)

- ⇒ 😊 Benefit? a quick (speedy) and discreet (confidential) way of completing the insolvency resolution process. त्वरित और गुप्त रूप से मसले को समेट लिया जाए
- ⇒ 😊 Prevents the stigma/bad publicity/damage to brand image associated with formal IBC proceedings. else in future difficult to get investors/customers/clients. मामला औपचारिक रूप से कोर्ट तक नहीं पहुंचेगा= अखबारों में/जनमानस में कंपनी बदनाम/कलंकित ना हो वरना भविष्य में निवेशकों/ग्राहकों को आकर्षित करना मुश्किल हो जाता है.
- ⇒ PRE-pack System is found in United Kingdom and the United States

Why in News? Indian govt thinking of amending the IBC code to allow pre-packing in India.

14.17.6 📌🔍📌📌: IBBI directive on Avoidance Transaction and 500 other technical things

📌 Such technical topics not important for the scope of the exam. If any teacher teaching it / private quizmaster is asking MCQ on it then please ask them to first go through previous years official papers and ask him to prove where's the pattern of such questions being asked in real exam?# 📌 थोड़ा-पढ़ो-आगे-बढ़ो

14.17.7 📌📌 (📌🔍📌) ATMANI → IBC Ordinance/Act 2020 to suspend new cases

- ⇒ 2020-June: Govt issues ordinance to amend IBC Code. (अध्यादेश)
- ⇒ Corona = business is down, difficult to work out any resolution plan. So, No fresh case will be registered in IBC code for next “X” months Because Corona (नए केसों के दाखिले/पंजीकरण को स्थगित किया गया.)
- ⇒ “X” = 24 March 2021 📌 Exact dates not IMP

IBC Ordinance / Act 2020	Case can start if loan default of minimum _ _
BEFORE	Minimum ₹1 lakh/>.
AFTER	Minimum ₹1 crore/>**

**So even after suspension is lifted, most of the small businessmen will be spared from IBC proceedings. (रोक हटाने के बाद भी नए केस दर्ज किए जाएंगे तो सिर्फ बड़े लोन के लिए किए जाएंगे)

14.17.8 📌(📌🔍📌) Insolvency and Bankruptcy Board of India (IBBI)



- ⇒ भारतीय शोधन-अक्षमता एवं दिवालियापन बोर्ड - वैधानिक संस्था
- ⇒ IBBI is the statutory body that monitors and implements I&B Code 2016.
- ⇒ **IBBI composition:** 1 Chairman (M.S.Sahoo), 1 nominated member from RBI, 8 members from Government's side = total 10 people.
- ⇒ IBBI's administrative control rests with the Ministry of Corporate Affairs (MCA).
- ⇒ Chairman has 5 years / 65 age tenure, whichever earlier. Also eligible for reappointment (पुनःनियुक्ति संभव).
- ⇒ IBBI selects Insolvency Professionals Agencies (IPAs). These IPAs enroll and supervise the members practicing as Insolvency Professionals (IPs). Presently, 3 organizations given “IPA” status viz. 1) ICAI (Chartered Accounts) 2) ICSI (Company Secretaries) and 3) Institute of Cost Accountants.
- ⇒ IBBI also selects **Information Utility (IU: सूचना उपयोगिता संस्था)** organization to maintain **database of borrowers**. In 2017, NeSL: National E-Governance Services Ltd (owned by consortium of SBI, LIC etc.)



was the first to get the IU status. It is compulsory for the lenders to share data with IU. IU helps lenders in two ways:

- 1) by looking @borrowers' credit history, lenders can make informed decisions about whether to give loan or not, and how much interest to charge? कर्जदाता को जानकारी मुहैया कराता है
- 2) This database helps establishing documentary proofs during NCLT / DRT / judicial / liquidation proceedings. कानूनी प्रक्रिया में दस्तावेजी सबूत मुहैया कराता है

14.17.9 (🔗)(🔗)(🔗)(🔗) Insolvency → Misc. Org: Indian Institute of Corporate Affairs (IICA)

- an autonomous body under Ministry of Corporate Affairs. (स्वायत्त संस्था)
- It has launched a two-year Graduate Insolvency Programme (GIP). स्नातक कार्यक्रम शुरू किया
- The student passing this program can register as IP, without the mandatory 10 years' experience.

14.17.10 (🔗) Project Sashakt by Finance Ministry (2018)



Figure 2: चलो, हम सब सरकारी बैंक IBC में जाने से पहले, खुद से ही NPA सुलजा ने की कोशिश करते हैं!

2018-Jul: Finmin's Project Sashakt for PSB-NPA on report by Sunil Mehta (PNB CEO).

5 Pronged approach to resolve the NPA problem in a timebound manner:

1. **Small sized bad loans upto ₹50 cr:** SME-resolution template, 90 days. Bank itself should work it out, without approaching NCLT/IP. लघु मात्रा के
2. **Mid-sized bad loans ₹ 50-500cr:** Inter-Creditor Agreement (ICA: अंतर-लेनदार करार), 180 days. Banks themselves should work it out, without approaching NCLT/IP. मध्य मात्रा के
3. **Large size above 500 cr:** (Proposed) independent Asset Management Company (AMC: परिसंपत्ति-प्रबंध कंपनी) to buy off bad loans from banks. AMC will not be funded by Government. बड़ी मात्रा के
4. Online asset trading platform.
5. NCLT/IBC legal-technical reforms.

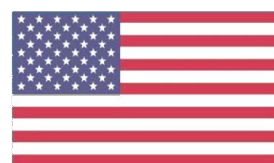
14.17.11 (🔗)(🔗)(🔗) ATMA-NIRBHAR → Insolvency → Micro, Small, Medium Enterprises

⇒ (📖) Ref Pillar#1D: Financial Inclusion → Mudra and other loans schemes

(📖) ? What was the purpose of the Inter-Creditor Agreement signed by Indian banks and financial institutions recently? (UPSC-Prelims-2019)

- a) To lessen the Government of India's perennial burden of fiscal deficit and current account deficit
- b) To support the infrastructure projects of Central and State Governments
- c) To act as independent regulator in case of applications for loans of ₹ 50 crore or more
- d) To aim at faster resolution of stressed assets of ₹ 50 crore or more which are under consortium lending.

14.17.12 (🔗)(🔗)(🔗)(🌐) Cross-border Insolvency (सीमा-पार का दिवालियापन)





- ⇒ Cross-border insolvency has two facets: 1) foreign creditors should be able to recover money lent to Indian corporates & VICE VERSA. 2) During Indian company's insolvency in India, the Indian lenders should be able to recover money from Indian company's foreign assets easily, AND VICE VERSA.
- ⇒ IBC sections 234 & 235 have provisions for it, BUT they are not notified yet, so they are not enforced.
- 2018: Corporate Affairs Ministry's Insolvency Law (reforms) Committee **under Injeti Srinivas** recommended
- ⇒ We should create a separate law for Cross-border Insolvency. अलग से कानून बने
- ⇒ More than 40 nations use United Nations Commission on International Trade Law (UNCITRAL)'s Model Law of Cross Border Insolvency (1997)
- ⇒ So, we can use it as a template while making our own law. Government is working on such bill.

14.18 (🔍📌📊) 📊 ECONOMIC SURVEY ON IBC/NPA (आर्थिक सर्वेक्षण)

14.18.1 Economic Survey 2018-19 on IBC/NPA (released in 2019-July)

- ⇒ With I&B Code and other measures by RBI, the NPA % has  अनर्जक परिसंपत्तियों के निपटान में मदद मिली
- ⇒ I&B code's time-bound mechanisms have prompted '**behavioral changes**' in corporate borrowers. Now they fear losing control of the company. This has improved corporate governance, cash and financial discipline. (कॉर्पोरेट देनदार के व्यवहार में परिवर्तन, कंपनी की मालिक की मेरे हाथ से चली जाएगी इस डर में नियमित कर्जा वापस कर रहे हैं)
- ⇒ By 31/3/2018: ₹ 50,000 crores worth NPAs have been upgraded to std assets (meaning the (arrogant) borrowers have been forced to resume paying principal & interest regularly.)
- ⇒ Due to IBC Code, India's rank has improved in World Bank's Ease of Doing Biz report. (*More in Pillar#4*).
However, we also need to begin more reforms:
 - ✓ We need to increase the number of NCLT benches, number of IP Professionals, use ICT technology for faster case proceedings. (न्यायपीठ, मानव बल और टेक्नोलॉजी के उपयोग में बढ़ोतरी की जरूरत)
 - ✓ We should enact separate law on **cross-border insolvency**. (सीमा-पार दिवालियापन)
 - ✓ **Group Insolvency** (समूह दिवालियापन): Big Industrialists usually operate through groups of companies, each having a separate identity e.g. Tata Sons ltd → 1) TCS 2) Tata Motors 3) Tata Steel etc. If one of these company become insolvent, it creates negative ripples on entire group's financial health. Certain legal-technical reforms are necessary to address such group-insolvency.
 - ✓ Certain legal-technical reforms to address insolvency cases involving individual proprietors and partnership firms. (व्यक्तिगत मालिक और साझेदारी फर्म: *They're legally different entities than 'Companies registered under companies Act. More in 1C: SEBI handout*)

14.18.2 (🔍📌📊) 📊 Economic Survey 2020 on IBC/NPA (released in 2020-Jan-31st)

- ⇒ NPA had reached its peak in 2018 but now it appears to be declining because of various measures taken by the Government and RBI. (धीरे-धीरे अनर्जक परिसंपत्तियों की समस्या कम हो रही है)
- ⇒ Nearly 3000 insolvency professionals (as on December 31, 2019).
- ⇒ Appreciated that IBC proceedings take on average 340 days to complete, unlike SARFAESI legal proceedings which take 4.3 years. केस का निपटारा ज्यादा जल्दी से हो पाता है
- ⇒ Appreciated that IBC helps recovering more amount of loan than SARFAESI in 2018-19

Approx. Amount recovered in crores	2017-18	2018-19
SARFAESI and DRT	33,000	52,000
IBC	5000	71,000



14.19 🧠👤🔍📖 ES21: REGULATORY FORBEARANCE (विनियामकी क्षमा/सहनशीलता)

During a great financial crisis the Reserve Bank may allow for some relaxation in above guidelines. (वित्तीय संकट काल में रिजर्व बैंक उक्त नियमों में रियायत दे सकता है)

- ⇒ For example, Restructuring of loans: A stressed / NPA walla borrower's loan tenure ⬆️ and/or loan interest rate ⬇️ as per RBI norms. (रुण का पुनर्गठन. लोन की अवधि-मियादी/ब्याज दरों में बदलाव)
- ⇒ Then such restructured loan account will be reclassified from NPA to Standard account → then banker's Provisioning, BASEL-capital norms related headaches will ⬇️
- ⇒ such temporary relief from the strict rules is called "Regulatory forbearance".
- ⇒ RBI permitted it after 2007-08's Subprime & Global Financial Crisis.
- ⇒ Ideally, such forbearance should be discontinued after economic recovery i.e. in 2011 when GDP, IIP etc had improved considerably. (हालांकि वित्तीय संकट खत्म होने के बाद इस प्रकार की क्षमा/रियायतों को बंद कर देना चाहिए)
- ⇒ But RBI continued forbearance /Lax monitoring till 2015 → medicine started showing following side effects / detrimental consequences on the health of banking sector and the economy. (किंतु रिजर्व बैंक ने उसे कई वर्षों तक जारी रखा. अनावश्यक रूप से ये दवाई खाने से बैंकों के स्वास्थ्य पर दुष्प्रभाव)

14.19.1 🧠👤🔍📖 Regulatory forbearance: side-effects by prolonged use (लंबे समय तक उपयोग से हानियां)

- ⇒ Banks exploited the forbearance window to restructure loans even for unviable entities, thereby window dressing their accounts, inflating profits → ⬆️ dividends to shareholders, including the govt in the case of public sector banks. (रिजर्व बैंक की क्षमा/रियायतों का गलत इस्तेमाल करके बैंकों ने अपने हिसाबों का बाह्य अलंकरण किया, जोखिम पूर्ण परिसंपत्तियों को कम और मुनाफे को ज्यादा बढ़ा चढ़ाकर दिखाया)
- ⇒ It also encouraged the banks to engage in risky lending practices e.g.
- ⇒ Zombie Lending (= weak bank keeps giving new loans to weak / subprime / Over Leveraged borrower)
- ⇒ Evergreening of loans (Companies taking new loans to repay the previous loans- कर्जे का निरंतर हरितकरण)

As a result, when RBI ended forbearance in 2015, following bad things discovered:

- ⇒ 🤖 NPAs almost 2x doubled when compared to the pre-forbearance levels. (अनर्जक परिसंपत्तियों दुगनी हो गई)
- ⇒ 🤖 Many corporate / loan scams unearthed: ICICI-Vodafone loan, Yes Bank-Rana Kapoor, PNB-Nirav Modi, Punjab and Maharashtra Co-operative Bank (PMC) etc. (वित्तीय गबन सामने आए)
- ⇒ 🤖 Similar problems are also observed elsewhere in other countries. (अन्य देशों में भी यही वार्ता का पुनरावर्तन)

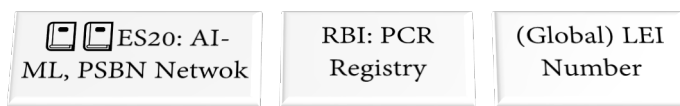
14.19.2 🧠👤🔍📖 Regulatory forbearance: Policy Lesson for Post-Corona Recovery (नीति पाठ?)

- ⇒ During Corona, again RBI has announced regulatory forbearance measures. [e.g. Loan Moratorium loan restructuring etc.] But, policymakers should not continue such emergency measures/ forbearance after the crisis is over. (आपातकाल खत्म होने के बाद इस प्रकार की क्षमा/रियायतों को तुरंत बंद करना चाहिए)
- ⇒ As the economy recovers, banks should be ordered to conduct Asset Quality Review (AQR) and take corrective measures accordingly. (परिसंपत्ति गुणवत्ता मूल्यांकन कर सुधार के लिए कदम लिया जाए)
- ⇒ When an emergency medicine becomes a staple diet, it can be counterproductive.
- ⇒ "Those who do not learn from history are condemned to repeat it." (- Spanish philosopher George Santayana) (जो इतिहास की गलतियों से सीखेगा नहीं वह उन गलतियों को दोहराएगा)



- ⇒ Banks' auditors should be penalised if not reporting the malpractices like evergreening and zombie lending. This would thereby create fear/incentives for the auditor to conduct the balancesheet inspection more diligently. (लेखा परीक्षकों को कोताही के लिए दंडित किया जाए)
- ⇒ National Company Law Tribunal (NCLT) should be empowered further, to enforce corporate governance standards under Companies Act. (राष्ट्रीय कंपनी कानून अधिकरण का अधिक सशक्तिकरण हो)

14.20 **BORROWERS' DATABASE & SURVEILLANCE** (उधारकर्ताओं का डेटाबेज व निगरानी)



14.20.1 **ES20: Use AI-ML Technology**

In PSBs, most of the loan-information processing (=Credit analytics) happens manually (ऋण विश्लेषण हस्तचालित रूप से करते हैं). This causes inefficiency, frauds and loan default. Tools such as Artificial Intelligence (AI), Machine Learning (ML) (कृत्रिम आसूचना और मशीन प्रशिक्षण) can help them in following ways:

- ⇒ Willful defaulters usually create fictitious companies to transfer their assets / shares / money just before they stop paying loan installments. (जान-बूझकर लोन न चुकाने वाले, फर्जी कम्पनी बनाकर लोन के पैसों का गबन करते हैं, उसपर निगरानी संभव)
- ⇒ Artificial Intelligence (AI) can alert the authorities through real time surveillance & data analytics of the borrower's NEFT/RTGS/DEMAT account transaction. (अलग-अलग खातों पर निगरानी रख सकता)
- ⇒ **Geo-tagging of assets (संपत्ति की जियो-टैगिंग)** i.e. adding longitude and latitude data with the photos & videos of the Factory building, machinery, vehicles, aeroplanes, helicopter etc. Then, →
 - Scamster can't pledge fictitious assets as collaterals for loans (फर्जी संपत्ति जिसका अस्तित्व ही नहीं)
 - Scamster can't pledge the same asset as collateral to multiple banks/NBFCs. (एक ही संपत्ति को एकाधिक लोगों के पास गिरती रखकर लोन में धांधली करना)
- ⇒ **GPS chips** may be embedded in the factory-machines and vehicle to track their real time location →
 - If scamsters move the machinery out of the factory, the banker will be alerted.
 - Bankers can remotely disable machines/vehicles, if loans are unpaid.
- ⇒ **Blockchain Technology** can be used for storing and verifying the authenticity of the data.
- ⇒ AI can monitor **Social media activities** e.g. Borrower is not paying the loan and yet sharing the Switzerland vacation photos on Instagram = He is a wilful defaulter → Attach his assets under the SARFAESI Act. (कर्जदार के सोशल मीडिया गतिविधियों पर निगरानी रखी जाए)

 **Caution?** borrower's privacy and dignity should also be respected while doing such computerized surveillance. (उधारकर्ता की निजता का भी सम्मान रखना चाहिए)



Figure 3: Instagram फोटो में भले हम मोरेशीयस में ऐय्याशी करे, बैंक को बोलेंगे लोन चुकाने का पैसा नहीं है।

14.20.2 **ES20: setup PSBN Network**

- ⇒ Government should create a new organization named PSBN (Public Sector Bank Network), which will act as a Financial Technology/Fintech Hub (FinTech: वित्तीय प्रौद्योगिकी).



- ⇒ Whenever a borrower applies for a loan to a public sector bank → Details will be sent to PSBN. → PSBN will verify the creditworthiness (वित्तीय साख) and risk profile (दिवालियेपन का जोखिम) of the applicant through:
- Artificial Intelligence (AI), machine learning (ML) and Big Data Analytics- as explained in the previous section
 - E-KYC (Know Your Customer): Aadhar verification → cross checking his Aadhar number against Financial data from Corporate Affair Ministry, SEBI/share market, Income Tax Department, GST, etc.

😊 **Benefit?** fraud prevention, ⬇️ chances NPAs, quicker decision making, process loan applications faster, cost saving for individual banks as all of them can use a single hub instead of spending on separate servers/technology. (वित्तीय घोटाले का जोखिम कम होगा, लोन अर्जियों का जल्दी से निपटा)

14.20.3 📺 📞 🖨️ - 🏦 RBI → Public Credit Registry (ऋण की सार्वजनिक रजिस्ट्री)

Presently, multiple organizations keep borrowers' database / credit history viz.

- 1) Under the I&B code, Insolvency and bankruptcy board of India (IBBI) has authorized the National e-governance services Ltd (NeSL) to act as an Information Utility (IU).
- 2) Under the Credit Information Companies Regulation Act (CICRA 2005), RBI has given license to CRISIL (oldest CIC-1987), CARE, FITCH India, ICRA, Brickwork Ratings, SMERA etc. as Credit Information Company [ऋण सूचना कंपनी].
- 3) RBI has its own "Central Repository of Information on Large Credits (CRILC)" for Loans above Rs 5 cr. Banks & NBFCs have to submit weekly updates in this portal.

🤖 But, not all of these databases are under the direct control of RBI. Each has their own methodology for data collection & tabulation. Not all of these databases are covering all individual & corporate borrowers.



Figure 4: बिग बॉस की तरह सब पे नजर रखूँगा। चुन चुन के डेटा निकालूँगा।

So, RBI's Yeshwant M. Deosthalee **Committee** (2017-18) recommended setting up a Digital Public Credit Registry (PCR) with following features:

- 1) PCR will be setup under RBI, using data from SEBI, Corporate Affairs Ministry, GST authorities, IBBI, Banks, NBFCs etc. अलग-अलग संस्थाओं से को डाटा हासिल करेगा
- 2) PCR will help lenders to get complete 360-degree profile of borrower on real time basis.
- 3) PCR will help RBI in early detection of systematic stress, checking the efficacy of monetary policy & other big data analytics. मौद्रिक नीति की अधिकारिता को जानने में भी मदद करेगा

[Asked in UPSC-CDS-2016-II]	[Asked in UPSC-CDS-2018-1]
Which one of the following is/are credit rating agency/agencies in India? (a) CRISIL (b) CARE (c) ICRA (d) All of the above	The Reserve Bank of India has recently constituted a high-level task force on Public Credit Registry (PCR), headed by (a) Sekar Karnam (b) Vishakha Mulye (c) Sriram Kalyanaraman (d) Y. M. Deosthalee

MORAL Outrage NOT REQ: "WHY not merge PSBN Network with RBI's PCR registry? Ans=Send suggestion to RBI + CEA Subramanian K. that they shld not do duplication of efforts. # 🙏 थोड़ा-पढ़ो-आगे-बढ़ो



14.20.4 📺 📞 🖨️ - 🌐 Legal Entity Identifier (LEI) Number: (कानूनी इकाई पहचान संख्यांक)



Figure 5: विदेश में नयी कंपनी बनाकर वापस विदेशी की बैंकों को चुना लगाएंगे तो क्या उखाड़ लोगे?

- **Objective?** Even if a company is blacklisted by Indian banks, it could apply for loans overseas, and those overseas bankers may not be aware of company's history. So, there should be a global "Aadhar card" number for companies, and they must be forced to quote that number during every financial transaction.
- After Sub-Prime Crisis and Global Financial Crisis (GFC), **the G20 and its Financial Stability Board (FSB: वित्तीय स्थिरता बोर्ड)** came up this LEI concept- a 20-digit alphanumeric code.
- LEI's Global Boss: Global Legal Entity Identifier Foundation (GLEIF), Frankfurt, Germany. LEI's Indian agent: Clearing Corporation of India.
- **RBI had ordered** the large corporate borrowers (who have taken loans of Rs.1,000 crore or more from Indian banks) must obtain LEI number by 31/6/2018, then gradually smaller companies must **obtain LEI-number in a phased manner**. पहले बड़ी-बड़ी कंपनियों ने यह संख्याक लेना होगा, फिर छोटी छोटी कंपनियाँ ने लेना होगा।
- Companies must quote this LEI-number in their financial transaction. RBI has power to issue such directives under: Payment and Settlement Systems Act, 2007 & Banking Regulation Act 1949.

14.21 📺 📞 🖨️ - 🌐 FUGITIVE ECONOMIC OFFENDERS ACT, 2018



Figure 6: देश छोड़ के भाग जाऊंगा, 9 लाख का लेव्हर जेकेट पहनेके लंडन की गलियों में घूमूँगा, क्या उखाड़ लोगे मेरा?

भगोड़ा आर्थिक अपराधी अधिनियम: This act targets economic offenders accused of cheque dishonor, loan / investment / chit-fund scam, money laundering etc. worth **₹ 100 crores / >** & left India to avoid facing prosecution / arrest.

- Special courts under the PMLA (Prevention of Money-laundering Act, 2002) will order the villain to appear within 6 weeks, if not then he is declared "Fugitive Economic Offender" ⇒ His Indian & Overseas & Benami properties will be attached (भगोड़े आर्थिक अपराधी की भारतीय तथा विदेशी संपत्तियों को जप्त किया जाएगा).
- Once property attached- the Union Govt will oversee its administration / liquidation (परिसमापन).
- No ordinary civil court / tribunal can give stay order. Villain can make appeal only in High Court and Supreme Court. (भगोड़ा आर्थिक अपराधी केवल उच्च न्यायालय और सर्वोच्च न्यायालय में जाकर मदद मांग सकता है).

If Borrowers don't repay, SARFAESI auctions give little recovery, CRR-SLR insufficient to repay deposits then bank collapse imminent. Then, how to protect the depositors? Ans. ⇒



14.22 🏠🏦🏢🏠 DICGC ACT: OBJECTIVE & LIMITATIONS



Figure 7: बैंक तो चोटाले में बंध हो गया। कोन करेगा हमारा पैसा वापस?

- ⇒ 1961: Deposit Insurance and Credit Guarantee Corporation Act (निक्षेप बीमा और प्रत्यय गारंटी निगम)- mandates that all types of banks must buy insurance on their deposit accounts from DICGC. Banks have to pay premium for this insurance.
- ⇒ DICGC is 100% owned by RBI. One of RBI Dy. Governor acts as chairman of DICGC. HQ: Mumbai.
- ⇒ When a bank shuts down, DICGC will pay upto ₹ 1 lakh insurance to every deposit holder for his principal and interest. (यदि बैंक बंद हो गया तो जमाकर्ता के नुकसान की भरपाई यहां से होगी)
- ⇒ 📅 Budget-2020: 📈 the insurance coverage to ₹ 5 lakhs (नुकसान भरपाई की राशि में बढ़ोतरी)
- ⇒ Previously, DICGC provided guarantee cover to bank on the loans granted to Priority Sector Borrowers. E.g. if Micro enterprise owner did not repay PSL-loans, DICGC would cover losses of the banks, hence its name contains the word 'Credit Guarantee Corporation'. But, with setting up of SIDBI (1990), National Credit Guarantee Trustee Company Ltd. [NCGTC, 2016] etc, this credit guarantee work is divided among many institutes, but we need not PHD over it. # 📉 थोड़ा-पढ़ो-आगे-बढ़ो

14.22.1 🏠🏦🏢🏠 - 🗣️ Limitation of DICGC (मर्यादाएँ)

- ⇒ 🧑 If a customer deposited more than ₹5 lakh in a single commercial / cooperative bank, then he gets only ₹5 lakh from DICGC. And for the remaining amount he must wait till RBI / Cooperative Registrar liquidates the bank. (📖 Ref 1B1: Banking Regulation Ordinance 2020)
- ⇒ 🧑 DICGC doesn't cover PACS and NBFCs. Those victims may have to approach courts.
- ⇒ 2002: UTI (a Government owned mutual fund company) made big losses. DICGC not liable to protect UTI-clients. So, Govt had to pay ₹14,561 crores bailout package.
- ⇒ Therefore, Financial Sector Legislative Reform Commission (FSLRC: वित्तीय क्षेत्र विधायी सुधार आयोग) under Justice B.N. Srikrishna (2011-13) recommended a new organization called **Resolution Corporation (RC)** via -Financial Resolution and Deposit Insurance (**FRDI**) Bill/law.
- ⇒ Govt proposed the **FRDI** bill in 2017, but too much opposition in media & public, so withdrew it in 2018= it's a defunct topic. We'll not WASTE TIME learning its salient features. # 📉 थोड़ा-पढ़ो-आगे-बढ़ो

14.23 🏠🏦🏢🏠 (🗣️🗣️) A BAD BANK CALLED "PARA" - SUGGESTED BY 📖📖 ES17

- Former Chief Economic Advisor (CEA) Arvind Subramanian's Economic Survey 2016-17 had proposed a bad bank named "**Public Sector Asset Rehabilitation Agency**" (**PARA**: सार्वजनिक क्षेत्रीय परिसंपदा पुनःप्रतिष्ठापन एजेंसी). PARA will buy bad loans from PSBs, try to salvage the maximum value from loan-restructuring / liquidation-auction and absorb the losses. सरकारी बैंकों के खराब लोन पेपर/ अनअर्जक परिसंपत्तियों को खरीदेगा.
- CEA Arvind S. also suggested RBI to give additional dividend to Govt. to start this bad bank & finance its losses. रिजर्व बैंक के मुनाफे से सरकार को जो लाभांश मिलता है उन पैसों से इसे बनाया जाए



14.23.1 🏠🏦🔪💀 Bad Bank called ARC/AMC- Announced by 📅 Budget-2021

- ⇒ 📅 Budget-2021: we'll set up an Asset Reconstruction Company (ARC) and Asset Management Company (AMC) to take over the bad loans from banks. (परिसंपत्ति पुनर्गठन/प्रबंधन कंपनी जो कि बैंकों से उनकी अनअर्जक परिसंपत्तियों को खरीदेगा)
- ⇒ Govt will not have any shareholding in ARC/AMC. Banks will set these organization(s) up with their own funds. (सरकार इसमें शेयर धारक नहीं बनेगी बैंक वाले खुद से शेयर पूंजी देकर इसको बनाएंगे)

Actual details about structure / headquarters etc not yet announced. # 🕒📅 थोड़ा-पढ़ो-आगे-बढ़ो.

14.24 🐯🔪🐱🔪🗨️👉 PROMPT CORRECTIVE ACTION (PCA) FRAMEWORK

- ⇒ 2002: RBI Governor Bimal Jalan designed it for all Scheduled Commercial Banks, except RRBs. (त्वरित सुधारात्मक कार्रवाई रूपरेखा) → 2017: Urjit Patel toughened PCA norms further. (नियमों को और सख्त बनाया)
- ⇒ 2018: NABARD announced separate 'Prompt Corrective Action (PCA) Framework' framework for Regional Rural Banks (RRBs क्षेत्रीय ग्रामीण बैंकों के लिए नाबार्ड की अलग से नियमावली है).
- ⇒ In PCA framework, **all Commercial Banks** are monitored for
- ⇒ Asset Quality (NPA or bad loans), परिसम्पत्तियों की गुणवत्ता अच्छी है की बुरी?
- ⇒ Capital Sufficiency (BASEL-III), पर्याप्त पूंजी है की नहीं?
- ⇒ Profitability (Return on Assets: RoA), पर्याप्त मुनाफा हो रहा है की नहीं?
- ⇒ Accordingly, are classified into **Risk threshold** #1, #2, #3. Higher the number, higher the risk. Then, accordingly, RBI will take corrective actions such as:
 1. RBI giving strict warning, conducting deeper audit & supervision. (ज्यादा कड़ी निगरानी)
 2. Restricting bank's directors' salaries and dividend distribution to its investors. (वेतन, लाभांश वितरण पर रोक लगाना)
 3. Restricting bank's branch expansion & lending operations. (शाखा विस्तार और ऋण देने पर रोक लगाना)
 4. Forcing merger / shutdown of a weak bank (under Banking regulation Act 1949). (अन्य बैंक में विलीन करना/ कमजोर बैंक को बंद कर देना)
- If a PCA-listed bank wants to get 'whitelisted', it'll have to ⬇️ its NPA, obtain additional capital, ⬆️ its profitability. (इस सूची से बाहर निकलना है तो अनर्जक संपत्तियों को कम करना होगा, ज्यादा पूंजी बटोरनी होगी, ज्यादा मुनाफा लाना होगा)
- PCA is "Monetary Policy → Qualitative / Selective Tool → Direct Action". (मौद्रिक नीति → गुणात्मक → सीधी कार्यवाही का यह एक साधन है)

- ⇒ As of 2020-Feb: 4 PSBs in this list viz. Indian Overseas Bank (IOB), Central Bank of India, UCO Bank and United Bank of India. 🖱️ Dynamically changing info so we need not remember / loose sleep for MCQs.

14.24.1 🐯🔪🐱🔪🗨️👉 Supervisory Action Framework for UCBs

- ⇒ 2012: RBI launched Supervisory Action Framework for Urban Co-operative Banks (UCBs). (शहरी सहकारी बैंको पर निरीक्षणात्मक कार्रवाई रूपरेखा)
- ⇒ ⬆️ Tightened it further in 2014, → tightened further in 2020 (सख्त किया गया)
- ⇒ How is it similar or different than PCA framework meant for commercial bank? Ans. Not important. Sufficient to know word association ke PCA=commercial banks, SAF=UCB.# 🕒📅 थोड़ा-पढ़ो-आगे-बढ़ो

14.24.2 🐱🔪 ATMANI → 🏠🏦🔪👉 RBI orders bank to halt Dividend Distribution

- ⇒ Scheduled commercial banks and cooperative banks shall not make any further dividend payouts from profits made during FY 2020-21 until further instructions. (मुनाफे में से लाभांश वितरण पर रोक)

- ⇒ This will help the banks to conserve funds and absorb losses in an environment of heightened uncertainty in CORONA. (धन का संरक्षण और नुकसान को अवशोषित/सोखना)
- ⇒ Separately, FinMin has ordered PSBs to reduce 20% non-core spending (फिजूल खर्ची में 20% की कटौती करने का आदेश) E.g. PSBs have habit of buying Audi cars for their Managing Directors, but now they'll not be able to waste money like that.

14.25 🌐🏦 BASEL-III NORMS (बेसेल-3 मानदंड)

Bank for International Settlements (BIS) is an international institution made up of 60 countries' Central Banks. HQ @ BASEL, Switzerland. Its committee on banking supervision set norms in 1988 (I), 2004 (II), 2011(III) to ensure global financial stability.

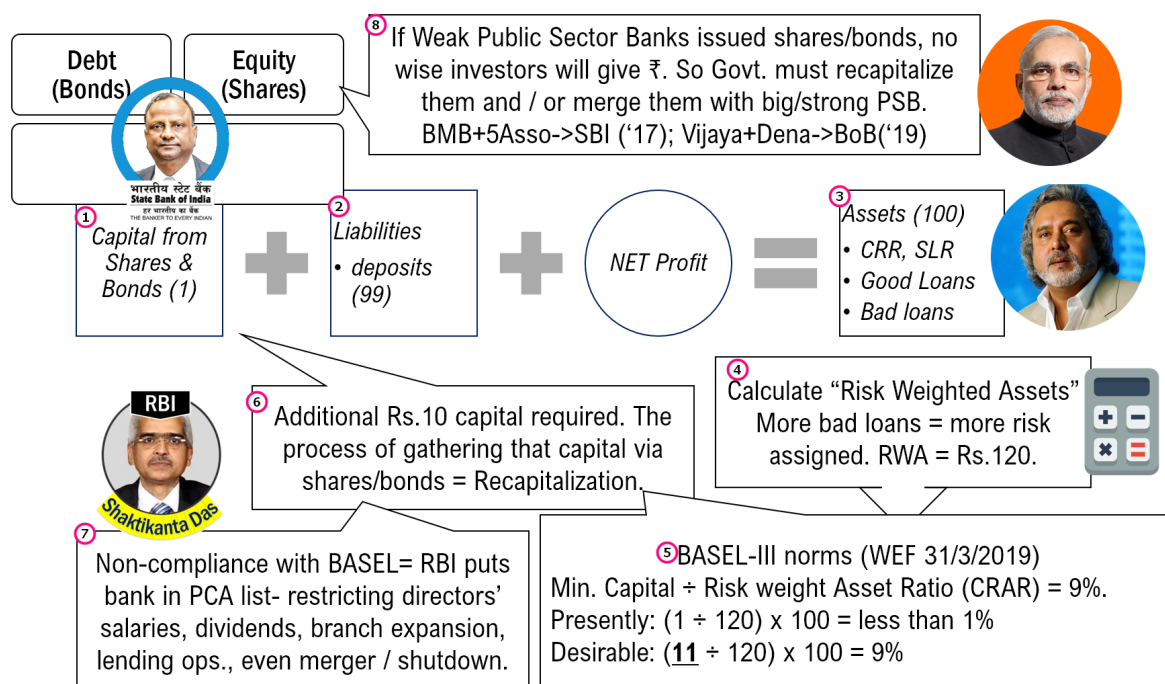


Figure 8: we need not bother with Tier-1 Tier-2 Capital etc, #थोड़ा-पढ़ो-आगे-बढ़ो

- From 1/4/2013, RBI began phased implementation of BASEL-III norms in India:
- First, a bank needs to calculate its Risk-Weighted Assets (RWA: जोखिमपूर्ण संपत्ति).
- Against these RWA, (Universal) Scheduled Commercial Banks (SCB) must keep:
 - o "Minimum Capital to Risk Weighted Assets Ratio" (CRAR) at 9% or higher from 31/3/2019.
 - o "a%" Capital Conversation Buffer (CCB) from XX date..
 - o "b%" Counter Cyclic Capital Buffer (CCCB): whenever RBI notifies.
- "c%" Leverage ratio (LR)
- "d%" Net Stable Funding Ratio (NSFR)
- "e%" High quality liquid assets (HQLA)
- "f%" Liquidity Coverage Ratio (LCR)
- and so on...many things.

Q. How exactly do CCB, CCCB, LR, NSFR, HQLA, LCR etc work? Ans. Not important for exam, beyond the basic 'word-association' that they're related to BASEL Norms. # थोड़ा-पढ़ो-आगे-बढ़ो

- ⇒ Each member country's Central Bank can prescribe different %, ratios depending on their country's situation. (हर देश की केंद्रीय बैंक अलग-अलग दिशा निर्देश जारी कर सकती है)

- ⇒ As Bad loans (NPA)  = bank's asset quality degrades  = its Risk-weighted assets (RWA)  → bank must arrange more capital to comply with these ratios, norms and buffers.
- ⇒ If a bank can't comply with BASEL norms → RBI puts it in PCA list. In worst case, bank will have to merge/ sell off its business to another bank or shut down. (इन मानदंडों को नहीं माना तो अंत में बैंक बंद हो सकता है)
- ⇒ BASEL Norms also apply on Differential Commercial Banks (LAB, RRB, SFB, PyB), Cooperative Banks, AIFI (EXIM, NABARD, NHB, SIDBI) and certain category of NBFCs, but RBI can prescribe separate norms / limits / deadlines for them. (विभिन्न प्रकार की वित्तीय मध्यस्थ ऊपर संस्थाओं पर इन मानदंडों की सीमा अलग-अलग है)

  What is the objective of BASEL-III norms? (UPSC-Prelim-2016)

- Develop national strategies for biological diversity.
- reduce the GHG emissions but places a heavier burden on developed countries.
- transfer technology from developed Countries to poor countries to replace chlorofluorocarbons in refrigeration.

d) improve banking sector's ability to deal with financial and economic stress and improve risk management.

  Basel Convention provides: (UPSC-IES-2020)

- Indian standards for pollution measurement and prevention
- International guidelines to control the transboundary movements of hazardous wastes between different countries
- Indian standards for the disposal of municipal and industrial wastes
- International standards to categorize pollution in air and wastewater

14.25.1   D-SIB: Domestic Systemic Important Banks

- ⇒ In 2010, G-20's brainchild Financial Stability board (HQ: BASEL) asked countries to identify Systematically Important Financial institutions and put framework to reduce risk in them. [Side note: Same parents responsible for birth of Legal Entity Identifier (LEI)]
- ⇒ Each year, RBI identifies banks that 'too big to fail' (=if they fail, it'll severely hurt the economy)' and labels them as **Domestic Systemic Important Banks (D-SIB)**, & orders them keep additional equity capital against their Risk Weight Assets (RWA) & imposes other technical norms.
- ⇒ Presently, 3 D-SIBs in India: SBI, ICICI, HDFC (**Latest Entry**).

14.26   : BASEL NORMS DEFERRED IN CORONA

14.26.1    BASEL Norms: RBI deferred some norms

- ⇒  ATMANI → RBI deferred deadlines for BASEL-norms related to Liquidity Coverage Ratio, Capital Conservation Buffer (CCB), Net Stable Funding Ratio (NSFR) etc. What they mean/how they work = NOTIMP (कुछ मानदंडों की अंतिम तिथि को टाल दिया गया।)
- ⇒  We need not lose sleep over new deadlines, as they may again get extended. So, **dynamic information** = dangers of answerkey becoming invalid, so, smart examiners usually avoid it. #  थोड़ा-पढ़ो-आगे-बढ़ो

14.26.2 BASEL Norms: Switzerland's body deferred some norms

- ⇒ Some of the BASEL norms were to be effective from 1/1/2022 such as IRB approach for credit risk, operational risk framework, CVA framework, market risk framework, Pillar 3 disclosure requirements. (what these words mean= NOTIMP)
- ⇒ Basel Committee's oversight body (group of Central Bank Governors in BIS) have deferred them to 1/1/2023 due to ongoing Corona crisis.

14.27 BANKS' BALANCE SHEET / AUDIT NORMS (तुलन पत्र लेखा परीक्षण)

14.27.1 IndAS Accounting Norms deferred (लेखा मानदंड स्थगित/टाल दिये)

- ⇒ Ministry of Corporate Affairs (MCA) ordered all the companies to keep their balancesheet as per the format prescribed in the Indian Accounting Standards (IndAS).
- ⇒ Institute of Chartered Accountants of India (ICAI) → Accounting Standards Board (ASB) has designed IndAS Norms. IndAS norms are similar to International Financial Reporting Standards (IFRS) designed by a global body whose name is not important for our exam.
- ⇒  **Benefit?** IndAS accounting format makes it easier for the local and global investors and regulators to compare, analyze and understand a company's financial position from its balancesheet.
- ⇒ IndAS is not part of BASEL norm. But, since commercial banks are basically 'companies doing banking activity', so they also have to comply to IndAS norms. But, only RBI has the power to notify its implementation deadline on banks.
- ⇒ 2019- RBI deferred the deadline seeing banks had not fully prepared for the transition.
- ⇒ 2020- Critics demanded RBI should implement it, but RBI is in no hurry due to Corona crisis.

14.27.2 Revised Long Format Audit Report

- ⇒ Audit (लेखा परीक्षण) is a systematic and scientific examination of the Balance Sheet/Accounts Books/Financial Transactions. Audit is done by an independent person known as Auditor.
- ⇒ 2002: RBI required Bank auditors to submit Long Format Audit Report (LFAR) to RBI & to respective bank's top-management. 2020: RBI issued new guidelines. So, now Bank auditors have to submit **Revised Long Format Audit Report (LFAR)** →  **Benefit?** More transparency, accountability, fraud-detection

14.28 RECAPITALIZATION OF PSBs: [सार्वजनिक क्षेत्र के बैंकों का पुनः पूंजीकरण]

If a bank doesn't have enough capital to comply with BASEL-III norms it can issue debt (bonds) and equities (shares) to gather new capital.

- ⇒ **2015:** Estimation that Public Sector Banks (PSBs) will require ₹ 1.8 lakh crore additional capital by 31/3/19 to comply with BASEL-III norms.
- ⇒ So, Finance Ministry's Dept. of Financial Services up with **Indradhanush PLAN** for phased-recapitalization of PSBs with ₹ 70,000 crores from 2015 to 2018. Individual PSB will get funding based on outcomes / performance.
- ⇒ **2017:** It became clear ₹70,000 crores was insufficient for BASEL-III compliance. So, Modi Govt. announced more amount.
- ⇒ To arrange ₹ for this, Govt began to issue Bank Recapitalization Bonds (RcB) in the market with following features: These bonds will have interest rate of ~7%, mature@ 2028-2033. Non-transferable to third party, Non-convertible into shares.

⇒ Govt instructed PSBs to mobilize equity (share) capital from private investors. However, investors shy away from smaller banks with weak balancesheets, so BMB & 5 Associated Banks merged with SBI (2017). Vijaya & Dena to be merged with BoB (2019, 1st April) etc. (More in 📖 Pillar#1B1)

⇒ 📁 Budget-2020 speech: ₹3.50 lakh cr in the last years years.

⇒ 📁 Budget-2021: ₹20,000 crores for PSB recapitalization in Financial Year 2021-22.

📁 ? With reference to the governance of public sector banking in India, Find Correct Statement(s): (UPSC-Pre-2018)

1. Capital infusion into public sector banks by the Government of India has steadily increased in the last decade.
2. To put the public sector banks in order, the merger of associate banks with the parent State Bank of India has been affected.

Answer Codes: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2.

14.29 📁 BANKING SECTOR: GOVERNANCE / ADMINISTRATIVE REFORMS

14.29.1 📁 Gyan-Sangam-I, 2015, Pune

FinMin's Dept of Financial Services (वित्तीय सेवा विभाग) organized a workshop of financial regulators, Public Sector Bank, Insurance Companies etc. It resulted in 3 outcomes:

- 1) PSBs' CMD post bifurcated into 1) separate chairman and 2) separate MD&CEO so that banks can function in more professional and accountable manner.
- 2) **Indradhanush** plan for bank recapitalization (₹ 70,000 crores) tied with governance reforms in PSBs.
- 3) Finance Ministry setting up an autonomous body- Bank Board Bureau (BBB). →

14.29.2 📁 PSB Banking Personnel → Bank Board Bureau (BBB), 2016



Figure 9: यूपीएससी की तरह हम लेंगे नोकरी का इंटरव्यू

- It is non-constitutional, non-statutory body (यह संस्थान न तो संवैधानिक है न तो वैधानिक)
- It interviews & selects top officials (MD, CEO, Chairman and full-time Directors) for PSBs, LIC and other public sector financial institutions. Actual appointment done by FinMin's Department of Financial Services. (Just like UPSC selects candidates suitable for IAS but DoPT notifies appointment.)
- BBB also helps the banks in governance reforms, raising capital for BASEL-III etc.
- BBB has 1 Part-Time Chairman, 3 Part-Time Members and 3 Ex-officio Members (from Govt & RBI side)
- 2018, April: **Bhanu Pratap Sharma** (retd.IAS) replaced Vinod Rai (retd.IAS, former CAG) as the new chairman of BBB. But such Person in news GK is not imp4UPSC

📁 ? The Chairman of public sector banks are selected by the __? (Pre19-SetA-Q73)

(a) Banks Board Bureau (b) Reserve Bank of India (c) Ministry of Finance (d) Management of concerned bank

14.29.3 📁 PSB Banking Personnel Reforms → 📁 ES20 suggestions Vol1Ch7 (50 years anniversary)

- PSBs should be allowed to do 1) campus recruitment of atleast some specialists (कुछ विशेषज्ञों की कैम्पस परिसर से सीधी भर्ती) 2) lateral entry in higher management (उच्च प्रबंधन में पार्श्विक भर्ती).
- PSBs should give Employee Stock Option Plan (ESOP) to their employees. ESOP is a type of benefit plan wherein employees given some shares of the company (Apart from their regular monthly salary). [कर्मचारी स्टॉक विकल्प योजना: वेतन/तनखाह के अलावा बैंकिंग कंपनी के शेयर भी कर्मचारी को दिए जाते हैं]



When/if company makes more profit →	How does employee benefit from ESOP?
1) Market price of shares	He can sell his shares to a third party for a large gain.
2) the dividend to the shareholders will increase.	He can keep the shares with himself, and will get large dividend from the company (in addition of his regular salary) तनखाह के अलावा कंपनी के मुनाफे में से लाभांश भी मिलेगा

- As shareholders, some of these employees may even join as board members → help designing more realistic business policies at the apex level. Thus, ESOP changes mind-set from an “employee” to that of an “owner”. (कर्मचारी में कंपनी का मालिक होने की भावना जगाता है)
- It encourages the employee to work harder with more dedication, loyalty and passion for the company’s profitability and brand image. (वह समर्पण निष्ठा और जुनून से बैंक के लिए काम करना शुरू करता है)

14.29.4 Enhanced Access and Service Excellence (EASE) Agenda 2018

- **2017, October:** Government announced ₹2 lakh+ crore package for recapitalization of PSB. But critiques argued such relief measures will just make the PSBs officials lazy & undisciplined (moral hazard). So,
- **2017, November:** First Public Sector Bank (PSB)-Manthan organized by Dept of Financial Services (DFS) at Gurugram. Based on the participants’ inputs...
- **2018, January:** FinMin’s Dept of Financial Services released EASE framework (बढ़ी पहुंच और सेवा उत्कृष्टता) with 6 pillars to make PSBs more Responsive and Responsible viz.
 1. Customer Responsiveness. (ग्राहकों के प्रति जवाबदेही)
 2. Responsible Banking: Reduce NPA, prevent frauds. (धोखाधड़ी पर अंकुश)
 3. Credit Off Take: Try to reach out to potential borrowers for home, auto, education, loans. (स्वयं बैंक ही उधारकर्ताओं को खोज निकाले)
 4. Help MSME entrepreneurs via SIDBI’s Udyamimitra.com portal. Approve/reject loans in not more than 15 days. (लघुउद्योगों की मदद)
 5. Deepening Financial Inclusion & Digitalization. (वित्तीय समोवेशन)
 6. Employees’ Human Resource Management (HRM: मानव संसाधन प्रबंधन): improve with training, performance linked promotion-salaries-posting-transfers etc.

Implementation? Each whole-time director of a PSB will be entrusted with one pillar of the EASE-framework. Their performance will be checked by the PSB’s board of directors. An independent agency will be tasked to check public perception. Finally PSB banks will be ranked: E.g. 2018: PNB > BoB > SBI.

14.29.5 Ease 3.0: Tech-Enabled Banking (2020-21)

- ⇒ 2018= Ease 1.0 → 2019: Ease 2.0 (some more fancy feature but NOTIMP) → 2020: ease 3.0
- ⇒ Finance minister proposed Smart, Tech-enabled Banking for Aspiring India
- ⇒ **Associated keywords:** Doorstep Banking, Dial-a-loan, Credit@click, Palm banking (using phone/tablets).

Table 3: Points for assembling Mains Answers Rapidly

Eco.Survey-2015: "4R" framework	Eco.Survey-2014: "4D" framework
Recognition (पहचान): of bad loans via asset quality review (AQR)	Disinter (खोदकर निकालना): "Digup graves, recover money": using SARFAESI Act, I&B code, Sashakt
Resolution (समाधान): via schemes/mechanisms I&B, Project Sashakt	Differentiate among PSB (भिन्न व्यवहार करना): Government should recapitalize Profit Making PSB: while merge or privatize Loss Making PSB.
Recapitalization (पुनर्पूँजीकरण): for BASEL-III norms ⇒ Indradhanush, Bank Recap Bonds & other measures: Total ₹ >3.5 lakh cr lakh crore mobilized.	Diversify (वैविध्य लाना): Allow more number and variety of Banks.⇒ SFB & PyB allowed. Wholesale Bank proposed.
Reforms (सुधार): Governance & Administration of PSB⇒ BBB, EASE	Deregulate (नियंत्रण मुक्त): Lower SLR, Promote Corporate Bond market so they borrow less from Banks e.g. Tri-Party Repo mechanism.

Further, you can also mention: PCA Norms, PCR registry, PSBN Network, ESOP etc.

14.29.6 ✍️ Conclusion for public sector banks? (सार्वजनिक क्षेत्र के बैंकों के बारे में निष्कर्ष)

- ✓ A vibrant banking system can support India's growth story/ PSBs are growth levers for India.
- ✓ Inefficient PSBs can severely handicap the country's economic development.
- ✓ 35% of Indians are in the 15-29 years age group. Majority of them live in rural areas and many of them require education loans and business loans to progress in life.
- ✓ Therefore, aforementioned initiatives are imp in that regard/ need to be addressed on priority basis to
 - 1) reap India's demographic dividend and
 - 2) to achieve \$5 trillion economy status by 2025.
 - 3) to achieve V-Shaped recovery Post-Corona

भारत की विकासगथा को आगे बढ़ाने, तथा जनसांख्यिकीय लाभांश को प्राप्त करने के लिए जीवंत बेकिंग प्रणाली आवश्यक। अतः उक्त रिजर्व बैंक/सरकार के उक्त कदम सरहनीय है/ उक्त सुधारों की आवश्यकता है।

14.30 🗝️🏦📉 NEGATIVE NEWS → YES BANK AND AT1 BONDS (2020)



- ⇒ 2004: Yes Bank, a Private Sector Scheduled Commercial Bank starts (HQ-Mumbai)
- ⇒ Its founder Rana Kapoor took bribes to approve loans to companies without capacity to repay loans, such as HDIL (This HDIL company also borrowed from PMC bank, causing another crisis there.).
- ⇒ By 2020: Yes bank's business became unstable. (धंधा अस्थिर हो गया)

$$\text{Equity Capital} + \text{Liabilities} + \text{NET Profit} = \text{Assets}$$



Table 4: Hypothetical figure only for illustration. B.Com/PHD NOT REQUIRED

	+Equity Capital (Shares)	+Liabilities		+NET Profit	=Assets (Loans, CRR, SLR etc)
		Bonds	Deposits		
Healthy bank	+11	+3	+78	+1	=100
Loser bank This is happening	*	*	+78	-10	=90 (assets ↓ due to bad loans)
*How to revive? (we must balance the Equation)	11 → 120 (get equity infusion from SBI etc.)	3 → 2 (by writing off AT1 bonds)	+78 (put deposit withdrawal limits to keep this stable. Besides, if loans given for 10-15 years project, bank can't return depositors' money <i>abhi ke abhi</i>)	-10	=90

2020-March: RBI is attempting following for Yes Bank's revival (पुनर्जीवित करना)

⇒ **Deposits Liability:** (temporary) withdrawal limits of ₹50,000 on depositors

⇒ **Bond Liability:**

- A) Write down ~₹9000 crore worth AT1 Bonds liability from equation. (in other words, those investors will not get a single paisa. बॉन्ड की देयता को खारिज कर देना). These bonds holders are unhappy & will go to court to stop this. **OR alternatively**
- B) Convert the AT1 bonds into (lower priced) shares e.g. ₹100 Face Value ka Bond converted into ₹20 Face Value ka Share (so there is 80% loss /haircut for the bond holder)

⇒ **Equity Capital:** Other banks to provide equity (share) capital worth >₹10,000cr into Yes Bank → future shareholding maybe SBI (45%), ICICI(6%), HDFC(6%), Axis(3-4%)

But daily ball by ball commentary / and changes in this plan so we need not lose sleep.

14.30.1 **BASEL-III norms: Capital Tiers**

BASEL-III norms require banks to keep capital against their risk weighted asset ratio. This capital is subdivided into:

Capital of a Bank	Instruments / subtypes: List not exhaustive
Tier1 / core capital →	⇒ Common Equity Tier-1 (CET1) e.g. ordinary shares. ⇒ Additional Tier1 (AT1) e.g. AT1 Bonds, Preferential shares etc.
Tier2 →	⇒ Bonds/Debenture, Hybrid instruments

BASEL-III prescribed that banks must keep minimum x%, y% etc in each of these tiers, depending on their Risk Weighted Asset (RWA).

14.30.2 **Additional Tier 1 (AT1) Bonds**

They have no maturity date (i.e. bank has to pay interest for infinite time / perpetuity and principal will not be returned). However, bank may 'buyback' them after certain years. If / when a bank makes huge losses → AT1 Bonds' liability may be

- written off (खारिज कर देना) OR
- converted into shares (process called 'Bail-In').

Beyond this any what/why/how/PHD, ball by ball commentary on SC judgements and PILs =poor cost benefit for MCQs. थोड़ा-पढ़ो-आगे-बढ़ो

14.30.3 **Zero Coupon Bonds for PSB recapitalization**

⇒ **Zero Coupon Bonds:** They mention 0% interest rate BUT borrower issues them at discount (e.g ₹100 ka bond sold@90) → borrower re-purchases it at face value (e.g. ₹100) on maturity date. Thus the lender/investor earns profit/interest. [सामान्य रूप से निवेश को मुनाफा तो मिलता है]

- ⇒ 2021: Govt issued ₹5,500cr worth of Zero Coupon Bonds to Punjab & Sind Bank at face value. (i.e. ₹100 ka bond sold@100, 0% interest). So effectively no interest or profit to be made. (इधर तो कोई मुनाफा नहीं)
- ⇒ Basically, Govt is doing an Accounting Gimmick/Financial illusion wherein Punjab & Sind Bank gives ₹5500cr to Govt by buying these Zero Coupon Bonds → Govt re-invests ₹5500cr in same bank's shares/equities, to 'show on paper' that govt has recapitalised this bank for Basel norms. (बांसेल मानदंडों का अनुपालन हुआ है ऐसा सिर्फ कागज पर दिखावा करने के लिए एक प्रकार की वित्तीय नौटंकी)
- ⇒ RBI has expressed concerns/displeasure about this gimmick. (रिजर्व बैंक ने चिंता/नाराजगी जताई)
- ⇒ Anyways 🙌 Neither the amount nor the modus operandi is important for exam. # ⌚ 📅 थोड़ा-पढ़ो-आगे-बढ़ो

14.31 🔑 🧠: 🐱 (🚫 🏢) NEGATIVE NEWS: ILFS & SHADOW BANKING



14.31.1 🐱 (🚫 🏢) NBFC: Shadow Banking (आभासी / प्रतिछाया बैंकिंग प्रणाली)

📖 ES20 Vo1 Chapter 08 on 'NBFC's Financial Fragility' (वित्तीय भंगुरता) observed

- ⇒ Shadow banking is a set of activities and institutions. They operate partially (or fully) outside the traditional commercial banking sector. They are not fully regulated by the RBI. ये संस्थाएं पारंपरिक बैंकिंग नियमों के दायरे से बाहर काम करती हैं.
- ⇒ A shadow banking system can be composed of a single institution or multiple entities forming a chain. They mobilize funds by borrowing from banks, issuing Commercial Papers (CP) and Bonds (Non-convertible debentures)

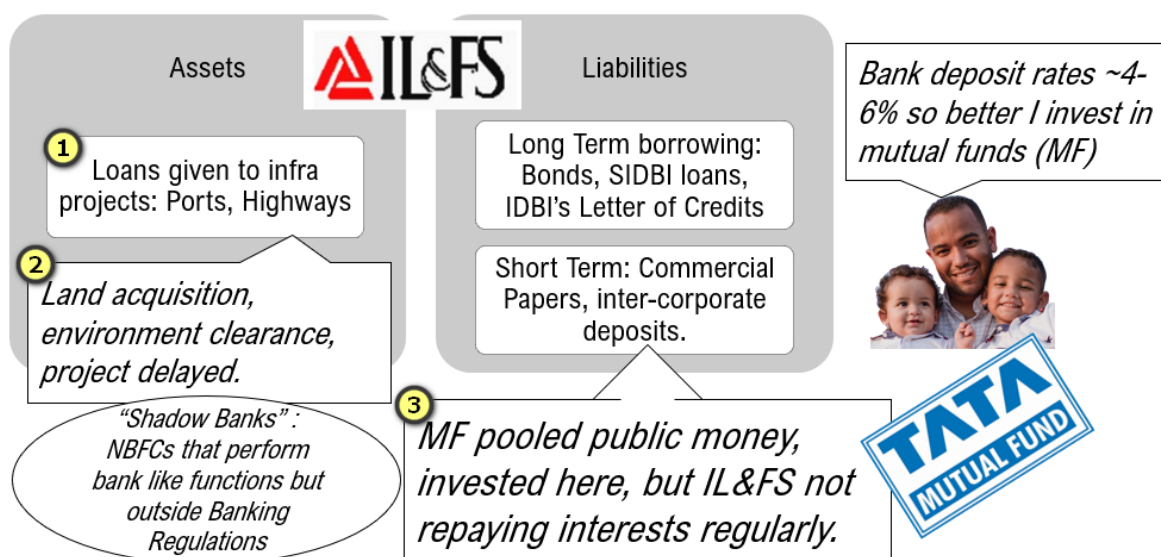
Table 5: Three important segments of the shadow banking system in India

HFCs	Housing Finance Companies. E.g. Dewan Housing Finance Limited (DHFL)
LDMFs	- Liquid Debt Mutual Funds invest clients money into short term debt instruments such as T-bill (of Govt) and Commercial Papers (of companies). - e.g. certain schemes by UTI, Kotak, L&T, Tata mutual funds - 2019: Some of these LDMFs had invested clients money in IL&FS and DHFL, but failed to get the money back. Nearly ₹4000 crore of investors' money is stuck, triggering the NBFC crisis in India.
Retail-NBFCs	Retail Non-Banking Financial Companies such as Gold loan companies, asset finance companies etc.

Shadow banking system's assets are risky and illiquid. If there is a 'bank run' like situation (depositors / investors demanding the money bank) these shadow banks can't honour the obligations. As seen in the ILFS crisis (2019) →



14.31.2 🐼 (🏠 🏦) Shadow Banks → IL&FS & NBFC Liquidity Crisis



- ⇒ Infrastructure Leasing & Financial Services (IL&FS) is a Systemically Important Non Deposit Taking Non - Banking Finance Company (NBFC - ND - SI: प्रणालीगत रूप से महत्वपूर्ण- डिपॉजिट न लेनेवाली- गैर-बैंकिंग वित्त कंपनी) Setup in 1987 HQ@Mumbai.
- ⇒ **Shareholders:** LIC > Japan's Orix group > Abu Dhabi's group > Central Bank of India > SBI.
- ⇒ **Challenge?** 1-2-3 of above diagram. + loans given to unworthy borrowers with forged documents, bribes were paid to IL&FS board directors & auditors.

14.31.3 🐼 ATMANIRBHAR → 🐼: 🐼 (🏠 🏦) RBI Helping NBFCs/ Shadow Banking industry

- ⇒ RBI has launched 1) TLTRO and 2) special liquidity window. (Ref 📖 1A2 Monetary Policy)
- ⇒ Govt has announced following 1) Partial credit guarantee 2) Sp. Liquidity scheme 3) Credit Guarantee Enhancement Corporation

14.31.4 🐼 ATMANI → 🐼 🏠 🏦 🏠 🏦 Partial Credit Guarantee Scheme (PCGS) 2.0

- ⇒ Budget 2019: If NBFCs/ MFCs/Micro Finance Institutions (MFIs) borrowed money by issuing debt securities (Bonds or Commercial Papers) → Public sector banks (PSB) invested in it → but borrower default then the government paid 10% of loss to PSB.
- ⇒ Corona= total 20% loss cover guaranteed to PSB. (सार्वजनिक बैंकों को आंशिक क्रेडिट गारंटी)

14.31.5 🐼 ATMANI → 🐼 🏠 🏦 🏠 🏦 Special Liquidity Scheme for NBFC/HFC (खास तरलता योजना)

- ⇒ Special purpose Vehicle company (SPV: विशेष उद्देश्य से बनाई गयी कंपनी) by SBI Capital Markets Limited (SBICAP). RBI will be regulator.
- ⇒ This company will buy ₹30,000 crore worth short-term debt securities of NBFCs from primary and secondary market. (लघु अवधि के ऋण प्रतिभूतिया खरीदेंगे)
- ⇒ → liquidity for those (shadow banks) → they can revive their operations, pay off their other investors etc.
- ⇒ If shadow bank fails to repay principal/interest to above SPV, then SPV's losses will be covered by FinMin → Dept of FinServices (वित्तीय सेवा विभाग).
- ⇒ In other words, those securities will be fully guaranteed by the central government.



👉 Above things' exact methodology need not memorized # थोड़ा-पढ़ो-आगे-बढ़ो

14.31.6 🏠🔗🏢🏠 Credit Guarantee Enhancement Corporation

- ⇒ Budget-2019: we will setup a Credit Guarantee Enhancement Corporation (CGEC: क्रेडिट गारंटी वर्धन निगम).
- ⇒ It'll be an NBFC company, regulated by RBI.
- ⇒ 🏠 ATMANIRBHAR Bharat 2020= Yes, we'll do it, (which was already promised in Budget 2019).
- ⇒ This company will provide Credit Guarantee to debt securities issued by Non-Banking Financial Companies (NBFCs: गैर बैंकिंग वित्तीय कंपनियां द्वारा जारी ऋण पत्रों पर, ऋण अदायगी की गारंटी देगा ये निगम).
- ⇒ Thus, debt securities' credit rating will ⬆️ = investors will find it safe to park money without demanding high interest. (जिससे निवेशकों का विश्वास बढ़ेगा, जोखिम कम होगा, और वह बिना ऊंचे ब्याज मांगे भी उन ऋणपत्रों में निवेश करेंगे)
- ⇒ 😊 Benefits?
- ⇒ Investors and Mutual Fund companies will feel safe parking clients' money in NBFC = Post-corona economic revival. (कोरोना महामारी के बाद अर्थतंत्र को पुनर्जीवित करने में मदद)
- ⇒ NBFC may lend such borrowed funds to Microfinance institutions (MFI)= help poor borrowers.

NOTE: above things meant for banks/NBFCs. Apart from that, to help MSMEs, Government launched Emergency Credit Line Guarantee Scheme (ECLGS), but it's separate-we'll study in (More in 📖 Pillar#1D)

निम्न लिखितई Following measures have been done long before Corona / Atma Nirbhar. How exactly do above norms work? Ans.Not-Imp. Because Prelims- word association sufficient due to technical nature of topic and for mains the max. utility = 250 words, we've sufficient content for it

14.31.7 🏠(🏠🏠)🔗🏠 Shadow Banking → other Remedies by Govt post-ILFS crisis

- 1) Under Companies Act: Ministry of Corporate Affairs (MCA:) replaced the IL&FS's Board members. Uday Kotak made new Chairman. कारपोरेट मामलों के मंत्रालय ने बोर्ड ऑफ डायरेक्टर में अपने विशेषज्ञों को आसीन किया
- 2) MCA constituted the statutory body National Financial Reporting Authority (NFRA) under Companies Act 2013 for stricter vigilance over Chartered accountants and auditors. (More in 📖 1C: SEBI Handout) कंपनी कानून के अंतर्गत राष्ट्रीय वित्तीय रिपोर्टिंग प्राधिकरण नामक एक वैधानिक संस्था की स्थापना
- 3) Corporate Affairs Ministry's Serious Fraud Investigation Office (SFIO) investigating the IL&FS officials & auditors. (गंभीर धोखाधड़ी जांच कार्यालय- इसके अफसरों और लेखा परीक्षकों की जांच कर रहा है)
- 4) Companies Act requires all companies (incl. NBFCs) to setup a Debenture Redemption Reserve (DRR), fill it with % from profit to protect bond investors incase of default. Government exempted NBFCs, housing finance companies and, listed firms from this requirement so they can easily mobilize new funds to revive old biz. डिवेंचर रिडेंप्शन आरक्षित निधि के नियमों में कुछ रियायत ए दी गई
- 5) LIC says we'll not allow IL&FS to collapse (=we may use Policy holders' money to rescue it just like IDBI)
- 6) National Housing Bank introduced Liquidity Infusion Facility (LIFT) of ₹30,000 crore for additional liquidity to HFCs for individual affordable housing loans. नेशनल हाउसिंग बैंक द्वारा अतिरिक्त पैसा मुहैया कराया
- 7) Through Finance Act, 2019, Govt amended RBI Act 1934 to ⬆️ RBI power to regulate NBFCs in following ways: RBI can remove NBFC's board of directors, debar its auditors, can inspect any NBFC or its associated group of companies, RBI can force merger/splitting of non-viable NBFCs, higher fines/penalties for violation. रिजर्व बैंक की निगरानी शक्तियों में बढ़ोतरी की गई

14.31.8 🏠(🏠🏠)🔗🏠 Shadow Banking → Remedies by RBI

- 8) RBI tightened norms of Asset-Liability Management (ALM) norms for NBFCs.



- 9) 2019 July: Dy. Gov Viral Acharya Committee → RBI board approved 3 year medium term framework to improve RBI regulation & supervision, based on global best practices = “Utkarsh-2022” roadmap. वैश्विक मानदंडों का अनुसरण करते हुए रिजर्व बैंक की नियंत्रण और निगरानी करने की प्रणालियों में अगले 3 सालों में सुधार करने के लिए उत्कर्ष कार्यक्रम
- 10) RBI ordered certain NBFCs to implement BASEL-III norm's Liquidity Coverage Ratio (LCR) High Quality Liquid Assets (HQLA) framework in a phased manner. बासेल मानदंडों का पालन
- 11) 2021: RBI proposes 4-tier structure for tighter regulation of NBFCs: NBFCs to be classified into four categories BASE, MIDDLE, UPPER & TOP LAYER (most risky companies). Accordingly tighter regulation on them. 🖱️ Exact details not IMP, Until they actually implemented. चार श्रेणियों में जोखिम के हिसाब से बांटा जाएगा सबसे उच्च श्रेणी में सबसे ज्यादा जोखिम पूर्ण कंपनियों को रखा जाएगा और उन पर रिजर्व बैंक की निगरानी सबसे ज्यादा सख्त होगी.

14.31.9 🐱 (🚫 🏠) 🖱️ 📄 📄 Shadow Banking → Remedies by SEBI

- 12) SEBI tightened norms for Credit Rating Agencies (CRAs). They've to disclose 'default probability' of bonds & other debt instruments. SEBI tightened norms on Mutual Funds, regarding where/how they invest clients' money. (सेबी ने भी पारदर्शिता के लिए नियमों को सख्त किया है)

14.31.10 🐱 (🚫 🏠) 🖱️ 📄 📄 Shadow Banking → Remedies suggested by ES20

- 13) CEA Subramanian K. has created a “Health Score for NBFCs” (स्वास्थ्य सूचकांक). It monitors given NBFC company's Asset Liability Management (ALM) problems, balance sheet strength, Operating Resilience etc. and gives them a score between -100 to +100. Higher scores indicating higher financial stability of the firm. This health score can provide early warning signals to the Financial regulators → they can initiate appropriate measures before it's too late. (पूर्व चेतावनी देखकर वित्तीय नियंत्रक तुरंत योग्य कदम उठा सके)

14.31.11 🗝️ 🖱️ 🏠 NBFC-Negative News (2019): Thomas Cook NBFC closure in UK

- ⇒ Thomas Cook was a UK's travel-related financial services company (1841).
- ⇒ They provided currency exchange, travel/luggage insurance, ticket booking, hotel accommodation, tour package etc. facilities. But, Their business declined with the advent of Airbnb, Trivago, Makemytrip & other apps / websites in travel segment.
- ⇒ 2019: Thomas Cook couldn't repay its loans, couldn't work out resolution plans with lenders, UK Government did not give bailout money → compulsory liquidation. (अनिवार्य रूप से कंपनी की नीलामी)

🗝️ ? In September 2019, which one of the following travel giants declared itself bankrupt? (CDS-i-2020)

- (a) Expedia (b) Cox & Kings (c) SOTC (d) Thomas Cook

14.32 🗝️ 🖱️ 🏠 NEGATIVE NEWS: PNB, LOU, SWIFT, & NIRAV MODI



PNB (Mumbai Branch): Give foreign currency loan to our client for purchase of goods (diamonds, airplanes, whatever), if he doesn't pay, we'll pay.

- If such bank guarantee given to another bank in a foreign country, it's called **Letter of Undertaking/ Letter of Credit/ Letter of Comfort**: internal difference not important.
- ⇒ Bank earns commission / fees from client for issuing such letters / guarantees.
- ⇒ The foreign currency thus loaned, goes into PNB's Nostro (Latin: Ours) account, & Nirav uses the dollars to buy diamonds in HongKong.



- ⇒ **PNB Scam:** PNB-Mumbai's corrupt manager kept issuing LoUs to diamond merchants Nirav Modi & Mehul Chowkasi without due-diligence or collaterals for 7 years, worth ~₹12,000 crores. And 2018-January: Nirav & Mehul left India.
- ⇒ PNB officials couldn't detect scam because LoUs were generated through **SWIFT** platform, which was not integrated with their Core Banking Solution (CBS) server.

14.32.1 🔄 Financial Messaging Systems

Within India	Globally (वैश्विक स्तर पे)
Structured Financial Messaging System (SFMS)	Society for Worldwide Interbank financial telecommunication (SWIFT)
designed by Tata Consultancy Services (TCS) for IDBRT (=Research arm of RBI)	By a Cooperative organization in Belgium's La Hulpe city (1973).
to serve the messaging function in NEFT, RTGS, and other inter-bank, intra-bank e-transactions platforms within India .	To serve the messaging function for Banks, NBFCs & brokers who may / may not have direct bank relations / settlement systems with each other due to international borders.

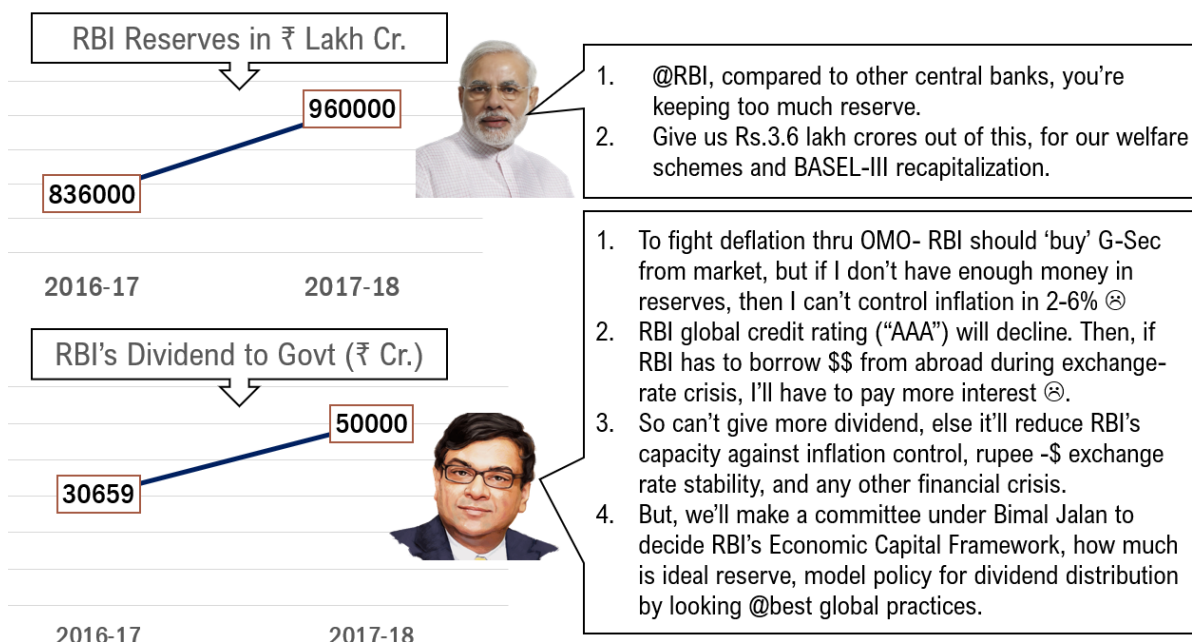
Afterwards, 📺📱📧📞 ball by ball commentary on Nirav Modi case =NOTIMP

14.33 🏦👤🏦 RBI DIVIDEND, RESERVES, ECONOMIC CAPITAL FRAMEWORK

RBI's income sources include 📌	From its income, RBI allocates funds to 📌
- Interest on G-Sec that are not sold in Open Market Ops. - Interest on Foreign G-Sec / Sovereign Bonds. - Interest on Loans given to other Banks / NBFCs. कर्ज पर मिलने वाला ब्याज - Revaluation of foreign currency and gold in RBI reserves. विदेशी मुद्रा और स्वर्ण भंडारों के मूल्य में बढ़ोतरी Seigniorage: profits from printing money- because face value > intrinsic value. HOW?NOTIMP - Penalties imposed on errant banks.	- Staff retirement fund, provisions for bad loans, depreciation in assets... Reserves for contingency (emergency): ~₹ 2.5 Lcr. आपातकालीन परिस्थितियों के लिए आरक्षित भंडार Reserves for Exchange Rate Stability (Technically called "Currency & Gold Revaluation Reserve: ~₹7 lakh cr विनिमय दर में स्थिरता के लिए आरक्षित भंडार) After making these allocations, profit is shared with Union Govt. in form of 'Dividend' (RBI Act Section 47). रिज़र्व बैंक के मुनाफे में से ये भंडार/ निधि में पैसा रखने के बाद यदि कोई राशि बची तो वह सरकार को लाभांश के रूप में देनी होगी



14.33.1 🗣️👤👤 RBI's Bimal Jalan panel (2018-Nov)



- RBI had setup Bimal Jalan panel was setup to review RBI's economic capital framework & decide the guiding principles for dividend transfer to Govt. (आर्थिक पूंजी संरचना तथा लाभांश वितरण के सिद्धांत)
- 2019- August: RBI board approved its report. It updated / reduced buffer related technical norms in such manner that RBI will be able to transfer more dividend / surplus to the Government. (तकनीकी मानदंडों में सुधार ताकि रिजर्व बैंक अपने मुनाफे में से भारत सरकार को अधिक लाभांश दे सकें.)
- Accordingly for 2018-19: (1.23Lcr dividend+52k extra)= ₹ 1.76 Lcrore to be transferred to government. This will help the government to meet its fiscal deficit target. (👉👉 Fig.NOTIMP)

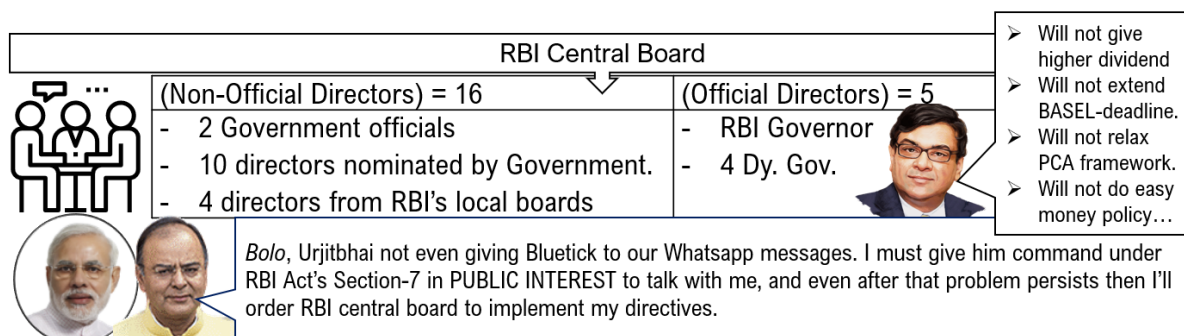
14.33.2 [31] RBI's Financial / Accounting Year (वित्तीय वर्ष में बदलाव)

2019: Bimal Jalan panel recommended 🖱️ reform → RBI's central board accepted it

👤 Before	👤 After
RBI's financial year - 1934 onwards: January to December - 1940 onwards: July to June	- For 2020: a smaller balancesheet will be prepared from 1/July/20 to 31/March/21. Then - From 1st April, 2021, RBI will switch to annual April-March format.
But Govt's financial year is April-March so, RBI had to give interim dividend to govt until RBI's final balancesheet was prepared, then another (full) dividend was given.	After this reform, no need for interim dividend (अंतरिम लाभांश वितरण नहीं देना होगा।)



14.33.3 🗣️📄 Section-7 Directive & Urjit Patel's Resignation (इस्तीफा)



👉 This topic is not very important because UPSC usually avoids “Controversy in News”. Urjit Patel was unhappy with Government interfering / criticizing his work. Such as:

- 1) **Higher Dividend:** Govt. demanded higher dividend from RBI to finance the recapitalization of PSBs for BASEL-III, and to finance its own fiscal deficit & populist welfare programs. Urjit Patel felt RBI's higher reserves are necessary to check any financial crisis. Excessive dividend could increase inflation. He did not oblige. (सरकारी योजनाएं चलाने के लिए ज्यादा डिविडेंड / लाभांश की मांग)
- 2) **BASEL-III-relaxation:** These norms will become fully effective on 31/3/2019 but PSBs don't have enough capital to comply so they requested Finance Minister to tell Urjit Patel to extend the deadline, Urjit Patel did not oblige. (बासेल मानदंडों की अंतिम तिथि में रियायत की मांग)
- 3) **PCA-relaxation:** Urjit Patel vigorously implemented Prompt Corrective Action framework, so Public Sector Banks' branch expansion, lending operations were restricted, they came running to FM. FM asked Urjit to relax PCA. He did not oblige.
- 4) **Tight Money Policy:** CEA Arvind Subramanian & BJP-Ministers were criticizing RBI's “Tight” Monetary Policy depriving MSMEs of cheap loans and thus harming India's growth rate. Whereas Urjit Patel deemed tight policy necessary to keep inflation @2-6%CPI (All India) on durable basis so he did not oblige. (महंगाई से लड़ने के लिए लोन और महंगे कीए → व्यापारी वर्ग नाराज)
- 5) **PNB Scam:** Jaitley expressed displeasure that RBI couldn't detect PNB-Nirav Modi fraud, whereas Urjit Patel defended that he lacks effective powers under Banking Regulation Act to take punitive actions against Public Sector Banks. (पंजाब नेशनल बैंक - नीरव मोदी कांड को पकड़ने रोकने में असमर्थ रहे ऊर्जित पटेल)

All these forced Govt. to issue Section -7 Directive to RBI.

14.33.4 🗣️📄🧠 Section-7 of RBI Act

- ⇒ Section 7(1) of the RBI Act empowers the Government to consult with RBI Governor in Public Interest. (जनहित के लिए, रिजर्व बैंक कानून की धारा नंबर 7 के अंतर्गत सरकार गवर्नर के साथ विमर्श कर सकती है)
- ⇒ In, 2018-October, for the first time in the history of Independent India, Govt began a Section-7(1) consultation with RBI Governor Urjit Patel, on the issues of PCA norms, BASEL-III deadline, higher dividend to Govt., Cheap Monetary Policy etc.
- ⇒ If RBI Governor doesn't positively respond in such Section-7(1) consultation, then Section 7(2): Government can issue binding direction / orders to RBI Central Board to implement its wishes. (यदि गवर्नर, ऐसे विमर्श में, सरकार की बात नहीं सुनते तो, केंद्रीय बोर्ड द्वारा सरकार अपनी बात को लागू करवा सकती है)
- ⇒ Although, fearing backlash from media & opposition parties, Govt did not issue any specific directions to the RBI Board. But, 2018-Dec: Urjit Patel resigned before completing 3-year term. He is not the first RBI governor to resign & we need not prepare KBC-GK names of all the RBI governors who resigned before their term.



14.34 MOCK QUESTION FOR MAINS GSM3 (250 WORDS EACH)

1. After 50 years of nationalization, the Public Sector Banks are lagging behind private sector banks in majority of the performance indicators. Suggest remedies in this regard. राष्ट्रीयकरण के 50 वर्षों के बाद, सार्वजनिक क्षेत्र के बैंक प्रदर्शन संकेतकों के निजी क्षेत्र के बैंकों से पीछे हैं। इस संबंध में उपाय सुझाएं।
2. Explain the significance of governance reforms in Public Sector Banks (PSBs) for India's economic growth. भारत के आर्थिक विकास के संबंध में सार्वजनिक क्षेत्र के बैंकों में शासन सुधारों के महत्व को समझाइए।
3. Suggest the ways in which information-technology can be utilized for combating the NPA in Indian economy. अनर्जक परिसम्पत्तियों से निपटने के लिए सूचना प्रौद्योगिकी कैसे मदद कर सकती है?
4. What is "Twin Balancesheet Syndrome"? Enumerate steps taken by RBI to resolve it. "दोहरे तुलनपत्र की समस्या" क्या है? इसके हल के लिए भारतीय रिज़र्व बैंक द्वारा उठाए कदमों की सूची दीजिए।
5. "While Insolvency & Bankruptcy Code doesn't fully cure the Twin Balance sheet Syndrome, it certainly helps alleviating the pain." Elaborate. "हालांकि शोधन-अक्षमता एवं दिवालियापन संहिता भारत के दोहरे तुलनपत्र की समस्या को पूरी तरह से ठीक नहीं करता है, लेकिन यह निश्चित रूप से दर्द को कम करने में मदद करता है।" विस्तृत कीजिए।
6. With respect to India's financial stability, explain significance of (i) PCA framework (ii) BASEL-III Norms (iii) Public Credit Registry. भारत की वित्तीय स्थिरता के संबंध में इन्हें समझाइए: (i) पीसीए ढांचा (ii) बेसल-III मानदंड (iii) ऋण की सार्वजनिक रजिस्ट्री
7. Why are shadow banks considered to be a threat to the Indian economy? Discuss the reforms undertaken by the authorities to address this challenge. प्रतिछाया बैंकों को भारतीय अर्थव्यवस्था के लिए खतरा क्यों माना जाता है? इस अनुसंधान में लिए गए सुधारों पर चर्चा करें।

Next Handout  Pillar#1C: SEBI SHAREMARKET



Pillar#1C: SEBI-Share Market

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15 PILLAR#1C: SEBI-SHARE MARKET

MCQs from SEBI/ Share market /Financial Market / Companies Act Topic in UPSC Prelims

Year	2014	2015	2016	2017	2018	2019	2020
MCQs	1 MCQ	0	2	0	1	1	3

These Qs mostly tested very basic foundation level understanding of share market. So, we are not here to become

Investment Bankers / Mutual Fund managers # थोड़ा-पढ़ो-आगे-बढ़ो

15.1 SECURITIES (प्रतिभूति)

A 'Security' means a certificate/document indicating that its holder is eligible to receive a certain amount of money at a particular time. This could be a...

Equity: Share certificate	Debt (ऋण): Bond / Debenture
Holder gets dividend from the profits of the company. If no profit, then no dividend.	Holder gets interest & principal irrespective of whether company makes profit or not.
Company's owners, proprietors (मालिक)	creditors of the company (लेनदार).
Have last claim during liquidation	first claim. नीलामी से मिलने वाली रकम पर पहला हक इनका
Attractive in boom period, since companies more likely to make profit so more chances of good dividend. Although during corona, many investors tried to buy shares cheap from secondary market, with hopes of getting profit after corona-recovery.	Attractive in slowdown period, since bonds provides fixed interest to the investor irrespective of profit of the company. निवेशकों को मंदी के दौरान ज्यादा अच्छे लगते हैं, क्योंकि जोखिम कम

15.2 FINANCIAL / SECURITIES MARKET: MEANING AND TYPES

Financial Market is the place where buying and selling of securities takes place. Doesn't require physical location. Can be done online / telephone as well.

Classifi.	Market Subtypes
Tenure: (अवधि)	1. Money Market (<1 year maturity) मुद्रा बाजार 2. Capital Market (1 year/> maturity) पूंजी बाजार
Freshness प्राथमिक एवं द्वितीयक	1. Primary Market (where new securities are issued for the first time). Helps a company /govt to connect with the investor. It has no separate physical existence but classified like



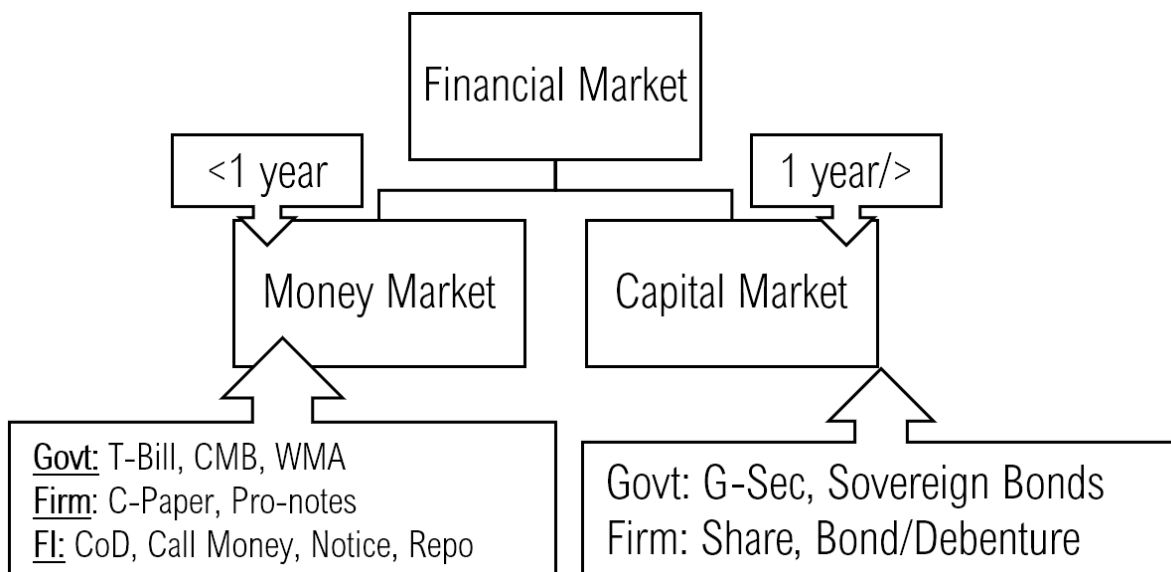
बाजार	this, for economic analysis. इस बाजार का अलग से भौतिक स्थान नहीं होता किंतु आर्थिक आकलन के लिए आंकड़ों में अलग से दिखाया जाता है 2. Secondary Market (where the old securities are resold). It has physical existence such as Bombay Stock Exchange (BSE) at Dalal Street, Mumbai. Provides liquidity & confidence to investors to buy new securities in Primary Market. (compared to a scenario if there was no market to resale used cars- तो कम लोग नई कार खरीदने जाएंगे.)
Settlement (निपटान)	1. Future Market: Where parties write contract today to buy/sell something at specific price on a future date. भविष्य की किसी तारीख को खरीद/बिक्री के लिए वर्तमान में सौदा/समझौता किया जाए 2. Spot Market: if bought & sold for immediate delivery.
Asset (परिसंपत्ति)	- Depending on what asset is traded, market can be divided into Bond (Debt) market, Share (Equity) market, Gilt-Edged Securities Market, Foreign Currency Market, Commodity Market etc. - if there was a supermall where all these products were available in one place it will be called “ Universal Exchange ”. SEBI permitted BSE & NSE to launch such thing (2018).

15.3 DEBT INSTRUMENTS (ऋण उपकरण)

Bond holders are creditors to company. First claim during liquidation. Assured interest irrespective of profit of company. These debt instruments can be classified into short-term vs long term.

15.3.1 Short term debt instruments (लघु अवधि ऋण उपकरण)

- Tenure = less than 1 year. Usually ‘unsecured’ because not backed by any asset.
- Usually sold at discount and re-purchased at Face Value or Par Value. The difference between these two prices is the interest earned by investor. सस्ते में बेचकर मूल भाव पर खरीदा जाता है
- Another synonym for this process: “**rediscount the bills.**”
- They’re traded at **Money Market** and are (usually) ‘negotiable & transferable’ in nature i.e. lender can sell to 3rd party → 3rd party can demand money from borrower. (परक्राम्य और हस्तांतरणीय)
- They’re also called **Near Money** = Asset that is highly liquid = can be readily converted into cash.



15.3.2 Short term debt instruments → by Government

1. State govt's treasury bills (T-bill). But stopped since 2001.



2. Union govt's treasury bills (T-bill: 14, 91, 182 and 364 days) & Cash Management bills (CMB: upto 90 days, started in 2009).

3. WMA (ways and means advances): given below

15.3.3 Short term debt instruments → by Govt → WMA

⇒ When Govt faces short term mismatch in receipt (income) and payment (Expenditure)

⇒ RBI Lends money on short term (3 months). Not counted in fiscal deficit figure. (More abt Fiscal Deficit in Pillar2D: FRBM)

⇒ Corona-crisis: mismatch in cashflow because सरकार की आमदनी और खर्च में अंतर बढ़ गया क्योंकि

○ Govt Income: Sales GST, Govt gave extension in tax payment deadlines

○ Expenses: free LPG, food, mask etc.

⇒ So, ATMANIRBHAR Bharat → RBI WMA limits by 60% than before to help the Union (1.20lcr) and State Governments (₹51,560cr collectively).

⇒ If upto above amount of ₹ borrowed = its WMA: loan interest = repo%

⇒ If beyond above amount borrowed then called 'Overdraft': loan interest repo+2%

^ above % or quantity or figures not imp for scope of exam

15.3.4 Consolidated Sinking Fund (CSF) for State Govts' repayment

⇒ Started in 1999. It has >₹1.25 lakh crore by 2019. (समेकित घाटा निपटान निधि)

⇒ Annually, State Govt has to contribute money equal to 1-3% of its outstanding market loans to this fund.

This fund is kept with RBI. (राज्य ने जितना कर्जा उठाया है उसके सामने इस निधि में थोड़ा पैसा जमा करना पड़ता है)

⇒ CSF is a fund outside consolidated fund of the State and public account of the State. (Ref Pillar2)

⇒ CSF meant to be used for only 1 purpose= repayment/redemption of loans taken by the State Government. (बकाया ऋण चुकाने के लिए ही इस निधि का उपयोग होगा)

⇒ 2020-May: RBI relaxed technical norms related to withdrawal of ₹ from CSF till 31/3/2021 to help the State Governments. (तकनीकी नियमों में कुछ छूट दी गयी)

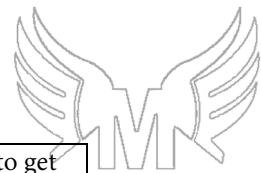
What about GST cess release and end-to-end market borrowing by Union/State?

(Ans Pillar#2: Taxation:GST.)

15.3.5 Short term debt instruments → by borrowers other than Govt

Table 1: how does this work in real life? Ans. not important just remember 1-Word Association

Borrower	Short term debt instrument (लघु अवधि के ऋण पत्र)
Company	- Bill of Exchange, Hundi, Commercial Papers, Promissory Notes. - Side note: Currency Note is a 'Promissory Note' issued by RBI Governor however, he's not bound to pay any interest. He just promises to exchange it with other currency notes & coins of equal face value. (More in Pillar#1A1)
Merchant to bank	Commercial Bill.
Banks / NBFC	Certificate of Deposits (जमा प्रमाण पत्र).
Call Money	It's the interest rate when Financial Intermediaries (Banks/NonBanks) borrow for ONE DAY among themselves.
Notice Money	Same as above but for 2 to 14 days .
CBLO	Collateralized Borrowing and Lending Obligation.



	Clearing Corporation of India Ltd (CCIL) helps Financial Intermediaries (FI) to get short term loans through this instrument.
Repo	Repo and Reverse Repo= Ref: Pillar#1A2: Monetary Policy handout.
TReDS	Trade Receivables Electronic Discounting System (TReDS): an online mechanism. MSME sellers pledge their (unpaid) invoices made to large companies → MSME receive (short-term) finance from Banks and NBFCs. छोटी कंपनियां बड़ी कंपनियों को सामान और सेवा बेचती है उसका जो बकाया पैसा है उसके बिल को गिरवी रख के लघु अवधि का कर्ज ले आये (Full) Budget-2019: we'll make amendments in Factoring Regulation Act, 2011 to allow all NBFCs to directly participate on the TReDS platform.

15.3.6 Debt → Interest Rate Benchmarks: LIBOR, MIBOR, MIFOR

LIBOR	London Inter-bank Offered Rate (LIBOR) is the average interest rate at which banks in London give short term loans to each other. 😊 Objectives/usage/application of LIBOR? - (some) global banks decide their call money /notice money rates based on it. - (some) external commercial borrowing (Indian Bizman taking loans from abroad), - (some) FCNR deposit interest rates (Non resident Indians depositing foreign currency savings in Indian banks to earn interest) - (some) Interest Rate Swaps/Derivatives (IRS: one party exchanging its bond/loan-paper to another party's bond/loan-paper. what/why/how-NOTIMP.) 🤖 Controversy? LIBOR methodology had become unreliable & fraud-ridden in recent years. So, UK regulator ordered stopping LIBOR by the end of 2021. ⇒ So accordingly, Financial intermediaries across the world are changing their LIBOR based contracts/agreements to other benchmarks. e.g. TONAR (Tokyo/Japan), SARON (Switzerland), SOFR (USA), SONIA (UK-Sterling-Pound), ESTR (Euro) etc. What are their full forms? how they work is not important. # थोड़ा-पढ़ो-आगे-बढ़ो
MIBOR	In LIBOR definition, replace the word “London” → “Mumbai” and “Global” → “Indian”, and you’ll know what MIBOR is!
MIFOR	⇒ Mumbai Interbank Forward Outright Rate (MIFOR) is a benchmark that derives values from LIBOR and a few other indicators etc. ⇒ 😊 objectives/usage/application? Similar to LIBOR. ⇒ 🤖 Since LIBOR is expiring by the end of 2021 → MIFOR will also stop working, Because it derives value from LIBOR value. 2020-Nov: RBI announced working on a new Indian benchmark to address this issue.

How will above things affect Indian economy in 500 ways? NOTIMP even though theHindu and Indian Express writing 800 words column it. Just look at previous MCQs# थोड़ा-पढ़ो-आगे-बढ़ो

Find Correct statements 😊 Asked in UPSC-Pre-2018)

1. The RBI manages and services Government of India Securities, but not any State Government Securities.
2. Treasury bills are issued by the Government of India and there are no treasury bills issued by the State Governments.
3. Treasury bills offer are issued at a discount from the par value.

Ans Codes: (a) 1 and 2 only (b) 3 only (c) 2 and 3 only (d) 1, 2 and 3

Which of the following is /are example (s) of ‘Near Money’? [UPSC-CDS-2016-I]



1. Treasury Bill 2. Credit Card 3. Saving accounts 4. Money Market Instruments

Answer codes: (a) 1 only (b) 2 only (c) 1, 2 and 3 (d) 1, 3 and 4

 **In Indian economy, non-financial debt includes which of the following ? (UPSC-Prelims-2020 SetB- Q84)**

- 1) Housing loans owed by households
- 2) Amounts outstanding on credit cards
- 3) Treasury bills

Codes: [a] 1 only [b] 1 and 2 only [c] 3 only [d] 1, 2 and 3

 **Which of the following phrases defines the nature of the 'Hundi' generally referred to in the sources of the post-Harsha period? (UPSC-Prelims-2020)**

- [a] An advisory issued by the king to his subordinates [b] A diary to be maintained for daily accounts
[c] A bill of exchange [d] An order from the feudal lord to his subordinates

 **Find correct statement(s) (UPSC-Prelims-2020)**

- 1) 'Commercial Paper' is a short-term unsecured promissory note.
- 2) 'Certificate of Deposit' is a long-term instrument issued by the Reserve Bank of India to a corporation.
- 3) 'Call Money' is a short-term finance used for interbank transactions.
- 4) 'Zero-Coupon Bonds' are the interest bearing short-term bonds issued by the Scheduled Commercial Banks to corporations.

Codes: [a] 1 and 2 only [b] 4 only [c] 1 and 3 only [d] 2, 3 and 4 only

15.4 **LONG TERM DEBT INSTRUMENTS (दीर्घ-अवधि ऋण- उपकरण)**

Tenure = 1 year/>>. Further sub-division based on who is the Borrower?

15.4.1 **Colonial era Govt. to borrow money**

1. **Coupon Bonds:** Contain detachable coupons. Coupons are presented to the issuer to claim the interest. Therefore, bond interest rate is also called 'coupon rate'.
2. **Zero Coupon Bonds:** Are sold on discount and repurchased at face value, do not have any coupons.
3. **Bearer Bonds:** Not linked to a PAN card, Aadhar card or passport, voter card or social security number. Anyone who presents it to the issuer, will get interest and principal. Usually issued during the war time.

15.4.2 **Modern day Government to borrow money**

- ⇒ **Government securities, Dated securities, Sovereign bonds** (संप्रभु बांड), *Kisan Vikas Patra etc. (more in  Pillar 1D: Financial inclusion lecture)*
- ⇒ Also called **Gilt Edged securities** (उच्च / अग्रिम दर्जे की प्रतिभूतिया) because repayment is assured by Government. (But then, they give lower interest rate because of low risk to the investor).
- ⇒ Global Credit Rating Agencies gives 'rating' to sovereign bonds. "AAA" is the best  and highest given to US Treasury Bonds. India's rating is ~"BAA" = moderate risk of default .
- ⇒ World's top three credit rating agencies- Fitch, Moody's and Standard & Poor have pro-US/EU allegiance. Critics allege these 3 agencies do not give adequate upgradation to the Govt bonds of India, China, Russia despite the economic growth. भारत में अच्छी-खासी आर्थिक वृद्धि के बावजूद भी यह पक्षपाती विदेशी संस्थान भारत को खराब रेटिंग देते हैं
- ⇒ So, India proposed BRICS group to set up its own independent credit rating agency (स्वतंत्र क्रेडिट रेटिंग एजेंसी).
- ⇒  **ES21:** has repeated the same story = global rating agencies are biased against India. (More in  Pillar#2D: Fiscal Deficit)

15.4.3 **Bonds by Modern day Govt. to curb Gold Consumption**

- ⇒ Real Interest Rate (वास्तविक ब्याज दर) = Nominal (नामित) Interest minus Inflation.



⇒ When Real Interest is negative, purchasing power ↓ despite ↑ in money quantity in bank account.

Then people prefer to park money in gold/real estate- which is not very beneficial to economy. So..

15.4.3.1 📌📌📌 31 Inflation Indexed Bonds (IIB-मुद्रास्फीति सूचकांकित बांड)

⇒ RBI launched in 1997, 2013, 2018 to provide positive Real interest rate to household, thereby reducing the Gold consumption & Current account Deficit (CAD) & weakening of rupee against dollar (else expensive crude oil → petrol, diesel inflation. (More in 📖 Pillar#3).

⇒ e.g. Inflation Indexed National Savings Securities-Cumulative (IINSS-C) with Interest Rate = CPI + 1.5% [and Principal also protected against inflation.] अगर महंगाई दर बढ़ेगा तो आपको ज्यादा ब्याज दर दिया जाएगा और मूलधन भी ज्यादा वापस करेंगे- ताकि जनता का सोने में निवेश करना का पागलपन थोड़ा कम हो।

15.4.3.2 📌📌📌 31 Sovereign Gold Bond (2015: संप्रभु स्वर्ण बांड)

RBI issues them on behalf of govt. Denomination: gold grams. But, RBI/Govt doesn't 'promise' to give you gold. They only promise to give you ₹ equivalent of latest gold price on maturity. इस बांड का मूल्य सोने के वजन के चिन्हित होगा. किन्तु परिपक्वता समय पर आपको सोना नहीं, उस सोने के वजन के हिसाब से मूल्य जितना रुपया देंगे।

- Annual interest 2.5-2.75% (depending on which year's 'batch' you bought.)
- Tenure: after 8 years you get the amount equivalent to prevailing gold prices at that time. हर साल नियत ब्याज, परिपक्वता समय पर बाजार में यदि सोने का दाम बढ़ा होगा तो आपको मूलधन से भी ज्यादा ₹ वापस दिए जाएंगे.
- **Eligible investor categories:** Indian resident individuals, Hindu Undivided Families (HUFs), trusts, universities and charitable institutions. सिर्फ यह लोग या संस्थान ही खरीद सकते हैं
- **How much can you buy?** Minimum 1 gm to max upto 20kg depending on investor's category.
- **From where to buy?** While RBI 'sells' it but customers buy it via following outlets: banks (only selected types of banks), post offices, selected stock exchanges (NSE and BSE) and a few other institutions.
- 🧐 **Benefit / challenges ?** reduce the import-demand for physical gold and shift a part of the domestic savings -- used for the purchase of gold -- into financial savings. (More in 📖 Pillar#3A along with Gold Monetization Scheme.)

15.4.4 📌📌📌 31 Long term debt instruments by Companies

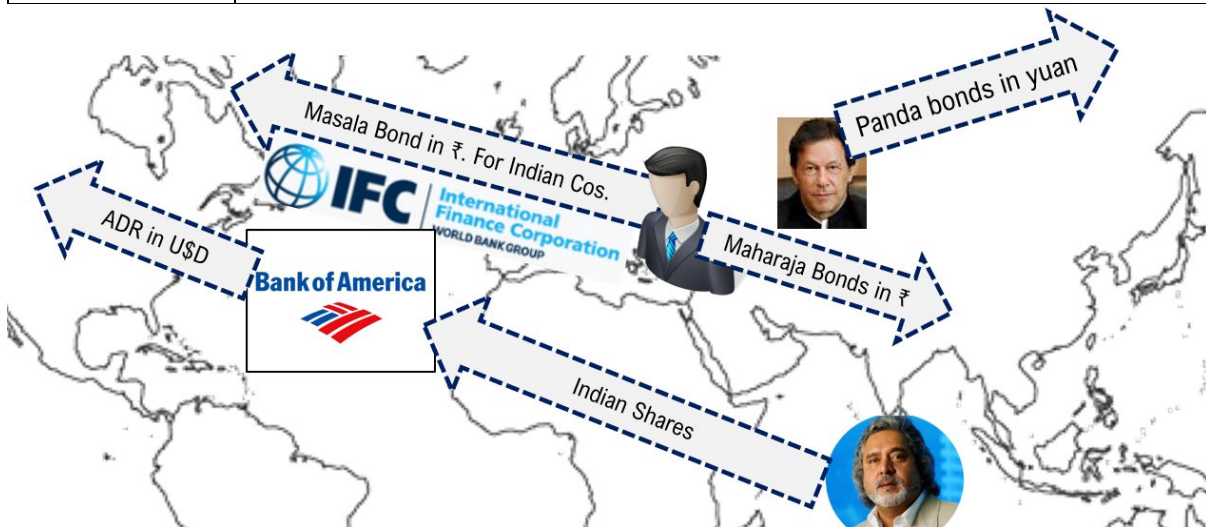
- 1) **Bonds** (British Term), **Debentures** (American Term): Internal difference not important.
- 2) If the company has high risk of default on repayment, the Credit Rating Company will mark it as Junk Bonds ("BB to D" Grade) e.g. IL&FS. Such company will have to offer a very high interest rate when issuing bonds next time. ज्यादा जोखिम पूर्ण कंपनी ने निवेशक को लुभाने के लिए ज्यादा ब्याज देना होगा
- 3) **Redeemable Bonds** (मोच्च): will repay regular interest and will return principal on maturity.
- 4) **Irredeemable Bonds** (अमोच्च): will pay only interest but no principal returned. Sometimes issued by PSB to meet BASEL-capital requirements. Although in reality they offer 'redemption' after 5-10 years when holder has 'option' to redeem principal & exit. (Ref: Pillar1B2=Yes Bank AT1 Bonds)
- 5) **Non-convertible Bond/Debenture** = can't be converted into shares.
- 6) **Hybrid instruments:** Issued as "Bond" but can be converted into Share. E.g. Optionally Fully Convertible Debentures (OFCD).

15.4.5 📌📌📌 31 Long Term Debt Instruments: Other issuers

Issuer	Objective? उद्देश्य?
ULB	Urban Local Bodies Issue Municipal bonds to borrow money from public.
BRICS Bond	- 2014- BRICS Nations had setup the New Development Bank (NDB, HQ: Shanghai, China). Later it launched BRICS Bonds to mobilize money for its infrastructure loans. Denomination: US Dollars



Issuer	Objective? उद्देश्य?
World Bank 	- 2018: launched world's first Blockchain Offered New Debt Instrument called Bond-i . Sold in Australia using Ethereum blockchain technology. Tenure: 2 years @~2% interest. Denomination : Australian Dollars, hence also called " Kangaroo Bond ".



15.4.6 Long Term Debt Instruments: Masala, Maharaja, Panda Bond

 **Masala Bonds**: These rupee denominated bonds issued outside India, to borrow money for Indian companies. World Bank's sister agency International Financial Corporation (IFC) launched 'Masala Bonds' to help Indian public sector and pvt sector companies.

⇒ 2015: RBI allowed Indian entities to launch such Masala Bonds.

⇒ 2017: National Highways Authority of India (NHAI) also issued Masala Bonds in London Stock Exchange to mobilize money for Indian Highway projects.

⇒ 2019-May: Kerala became the first state to issue Masala Bonds. Its Kerala Infrastructure Investment Fund Board (KIIFB) issued Masala Bond at the London Stock Exchange. Denomination: ₹ ₹ Total Size: ₹ 21.5 billion. Tenure: 5 years. Masala Bonds are usually issued by institutions with AAA rating. Since KIIFB has BB rating, hence offered higher interest rate: ~9.7% (वरना कोई खरीदता नहीं)

Table 2: rapid revision table for Bond types based on currency

 Issuer →	 Borrowing from →	 In currency →	  Is called
Non-Chinese →	China →	Renminbi (=yuan)	 Panda Bonds
Non-Australian	Australia	Australian dollar	 Kangaroo Bonds
Non-Indian	India	Rupee	 Maharaja Bonds
(Indian or a non-Indian on behalf of Indians)	Outside India	Rupee	 Masala Bonds



15.4.7 Long Term Debt Instruments: Other Special purpose Bonds

 (proposed) Consol Bonds for Corona-revival	⇒ US Govt (1870s) and British Govt (1917) had issued Consol bond. ⇒ Consol is short form for 'consolidated annuities'. ⇒ Consol bonds have no maturity date. They are perpetual bonds that paid 4-5% interest rate, for an infinite time period. In theory they don't repay the principal amount back to investor. Thus, they're Irredeemable Bonds (अमोच्च). ⇒ However, in reality, the Govt may redeem(/buyback) the bonds after certain years, by paying principal to the investor. कुछ वर्षों बाद सरकार पुनः खरीद लेगी ⇒ Some economists suggesting Indian govt should issue Consol Bonds for Post-corona economic revival. (अर्थव्यवस्था को पुर्नजीवित करने के लिए)
 (Proposed) Elephant Bonds for black money	⇒ 2019-May: Commerce ministry's Dr. Surjit S. Bhalla Committee 'to improve India's share in global trade' suggested 'Elephant Bonds'. Tenure: 25-years. ⇒ People declaring Black Money will be required to invest x%. → ₹ ₹ to be used only for infrastructure projects. जिनके पास काला धन किन्तु सजा से बचना है तो वे इसमें निवेश करें और पैसा बुनियादी अवसंरचना निर्माण में उपयोग होगा
 (Proposed) Surety Bond for road construction	⇒ Party#1 Road contractor pays fees/premium to party#2 insurance company. Insurance company gives him a surety bond. ⇒ Road contractor gives this surety bond to party#3 Highway Ministry. ⇒ if the road contractor is not finishing project within prescribed time-limit/quality-limit → Insurance company will pay ₹ ₹ to Highway Ministry. ⇒ Presently, Insurance companies are not allowed to issue surety bonds in India. But, 2020-Jul: IRDAI (insurance regulator) thinking about this proposal.
 Green bonds (हरित बांड) पर्यावरण संरक्षण और स्वच्छ ऊर्जा संबंधी	For renewable energy, pollution control, environment friendly projects. - World's first Green Bond launched by World Bank (2007) - India's first Green Bond launched by Yes Bank (2015) - BRICS-New Development Bank issued Yuan- denominated green Bonds (2016) - Indian Renewable Energy Development Agency (IREDA) launched India's first Masala Green Bond at London Stock Exchange (2018).
 Blue Bond (नील बांड)	A sub-type of green bond, where money borrowed for climate resilient water / marine / fisheries projects. E.g. 2018- Seychelles issued world's first 'Blue Bond,' to expand its marine protected areas and fisheries sector. (समुद्री संरक्षित क्षेत्र और मत्स्य क्षेत्र)
 Catastrophe Bond (आपदा)	⇒ Govt / Insurance company issues such bond. Investor is promised with high annual interest rate. But, if a natural disaster happens, his principal will not be returned. ⇒ If disaster doesn't happen then principal will be returned. ⇒ अच्छा ब्याज देंगे किंतु आपदा हुई तो मूलधन वापस नहीं करेंगे क्योंकि वह सारा मूलधन आपदा प्रबंधन में इस्तेमाल करेंगे
 Social Impact Bonds (सामाजिक प्रभाव बांड)	2019-Feb: SIDBI issued ₹ 300 cr. worth Women's Livelihood Bonds (महिला आजीविका बांड) with the help of World Bank, UN Women org etc. - These bonds will be offered to High Net worth Individuals (HNI), Impact Investors (rich people interested in 'indirect' social service) etc. They'll earn 3% annual interest rate for tenure of 5 years. - Money thus collected → SIDBI → Micro Finance Institutes (MFI) → loaned to individual women entrepreneurs in food processing, agriculture, services etc.



? With reference to 'IFC Masala Bonds', sometimes seen in the news, which of the statements given below is/are correct? (UPSC-Pre-2016)

1. The International Finance Corporation, which issues them, is an arm of the World Bank.
2. They are the rupee-denominated bonds and are a source of debt financing for the public and private sector.

Answer Code: (a) 1 only (b) 2 only (c) Both 1 and 2 (d) Neither 1 nor 2

? Which one of the following is a viable alternative to term-loans for raising debt finance by large publicly traded firms? (UPSC-IEnggS-2018)

- (a) Shares (b) Debentures (c) Asset loans (d) Gold loans

15.4.8  Electoral bonds (चुनावी बांड, 2017)



Figure 1: राजनीतिक पक्ष को चंदा कैसे दु, की विकास दुबे को पता न चले?

- ⇒ Announce in Budget 2017 → **Notified by Dept. of Economic Affairs, Finance Ministry** (आर्थिक मामलों का विभाग). Only SBI can issue at present, and in multiples of Rs.1,000, Rs.10,000, Rs.1,00,000, Rs.10,00,000 and Rs.1,00,00,000.
- ⇒ **When?** For ten days at the start of each quarter. (January, April, July and October). However, during Lok Sabha election year, can sell for another 30 days.
- ⇒ **Who can buy?** Only an Indian Citizen or Company registered in India → deposit money in their bank account → use that ₹ to buy Electoral Bond, after giving certain KYC-documents. So, Electoral Bond can't be bought **anonymously** or directly with **cash**.
- ⇒ Electoral Bonds can be donated only to a political party registered under **Representation of the People Act 1951 (RPA: लोक-प्रतिनिधित्व अधिनियम)** and which has secured 1% /> votes polled in last Lok Sabha or Vidhan Sabha elections.
- ⇒ **31 Validity** (वैधता अवधि)? Only 15 days from date of purchase. Within that time, buyer must donate, and political party must deposit in its SBI (current) bank account. No interest payable.
- ⇒ **Characteristics of electoral bonds?** (विशेषताएँ)
 - Paper / Physical format (not DEMAT / electronic format).
 - **Bearer** instrument (Donor or Recipient's name not mentioned),
 - **Promissory Note** (promises to transfer money in bank account)
 - **Interest Free** banking instrument (zero interest payable to anyone).
 - Can't sell it to third party, can't pledge it for loans. (गिरवी नहीं रख सकते)
- ⇒ **Benefits of electoral bonds?**
 - Transparency in political funding. (राजनीतिक चंदे में पारदर्शिता)
 - Reducing influence of cash and black money in election, (काले धन का प्रभाव)
 - Confidentiality to donor- he can give to any political party without his wife, staff, CA, Lawyers, journalists, local goons etc. knowing the name of recipient political party. (दाता को गोपनीयता)



15.4.9 📊📈📉 Bond Yield, Yield Inversion, Negative Yield

Ref Pillar#1A2: RBI's Monetary Policy → Operation Twist

15.5 📊📈 EQUITY INSTRUMENTS (इक्विटी)

⇒ Equity holders are called owners / proprietors of the company.

⇒ If company makes profit → they get dividend. They've last claim during liquidation.

Keywords	Features
Ordinary shares	साधारण शेयर: have voting power in the meetings of shareholders. Last claim during liquidation.
Preferential Shares	अधिमन्य शेयर: During liquidation, these investors will be given money before the ordinary shareholders. Further subtypes: (i) with voting power (ii) without voting power.
Sweet Equity	Shares sold @discount to directors & employees for their value addition to company [Amount is regulated under Companies Act]
📊📈 Sweat Equity इसका कुछ काम नहीं परीक्षा में	- Sweet (मीठा) Equity= Explained above - Sweat (पसीना) equity Is a separate thing. you can do a Google search for itself but not important for the scope of exam, Because everything given in the Investopedia is not important for the scope of exam. even though some inexperienced quizmaster/content writers randomly design mock MCQs from it, because They have not bothered to observe the previous year UPSC question papers.
ESOP कंपनी के कर्मचारी को तनखाह के अलावा शेयर्स भी दिए जाएं	Employee Stock Option Plan: Shares may be given free to employees to increase their loyalty/motivation for company. Ref: (More in 📊 Pillar#1B2- PSB reforms) PS: Economic Survey2020 used the term Employee Stock Option Plan. So, I've written. Some website mention Employee Stock Ownership Plan- how these two (ownership/option) are similar or different? 📊📈 ANS NOT IMP.
Penny stocks फालतू कंपनी का	Shares whose market price remain excessively low compared to its face value. Such pathetic companies give zero or little dividend.
Blue Chip stocks दमदार कंपनी का	Shares of a nationally recognized, well-established and financially sound company with a history of generating good dividend.
Venture capital funds	VCF are professional firms helping startup companies with seed capital. (could be debt / equity / hybrid) (स्टार्टअप कंपनियों को शुरुआती पूंजी दिलवाते हैं)
Angel Investors ऐंजल निवेशक	Rich person helping startup companies out of his hobby, passion, profit motive or time pass. e.g Ratan Tata in Urban Ladder app. (could be debt / equity / hybrid). Related topic: 📊 Pillar#2: Angel Tax in Budget/blackmoney
Corporate Strategic Investor	Invests in startup company with goal of acquiring the company or its technology at later date. स्टार्टअप कंपनी में निवेश करता है ताकि भविष्य में उसकी टेक्नोलॉजी पर कब्जा कर सके
RGEES Started in 2012	Rajiv Gandhi Equity Savings Scheme= Govt gives income tax benefit to people who invest in the share market for the first time. Discontinued by Budget-2017 मध्यमवर्ग का नया निवेशक पहली बार शेयर बाजार में निवेश करें तो आयकर में राहत
Share Pledging	When promoter of a company e.g. Mukesh A. of Reliance or Subhash Chandra of Zeegroup pledges his shares as collateral to borrow loans from a bank / NBFC. जब कंपनी का संस्थापक अपने शेयर गिरवी रखे पैसा उधार लेता है

📊📈 What does 'Venture Capital' mean? (Asked in UPSC-Pre-2014)

A. A short-term capital provided to industries



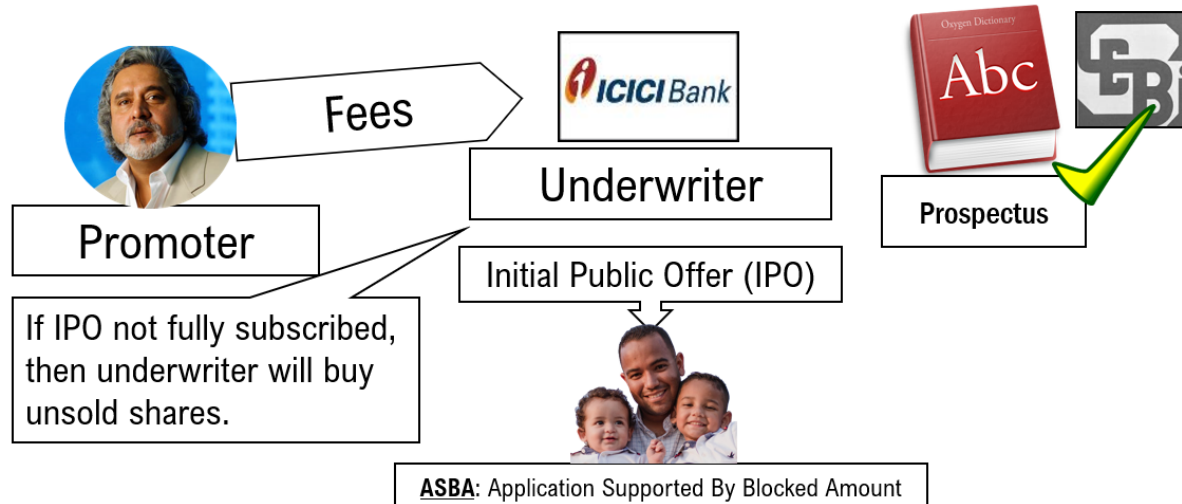
- B. A long-term start-up capital provided to new entrepreneurs
- C. Funds provided to industries at times of incurring losses
- D. Funds provided for replacement and renovation of industries

? An individual investor who invests in the e-project usually during an early stage is (UPSC-IES-2020)

- A) corporate strategic investor B) founder capital C) angel investor D) venture capital

15.6 METHODS OF ISSUING SHARES

Share have printed price on the certificate called **Face Value or Par Value** (सममूल्य). If they're sold at higher price than face value, it's called "**Premium Value**" - that usually happens when investor is confident of getting high dividend/return on his investment. *Related keyword: Price Earnings Ratio (P/E Ratio) - what it means*
NOTIMP.



Initial public offer (IPO) प्रारंभिक लोग निर्गम	⇒ Company hires an underwriter (usually, a merchant bank, investment bank) for a fee. ⇒ Underwriter drafts Red Herring Prospectus for SEBI approval. ⇒ Then, Underwriter invites application from public & sells them shares at face value or higher. If less people subscribe → then underwriter will buy the unsold shares by himself.
Follow on public offer (FPO) अनुसरण...	⇒ If company had already issued IPO-shares previously, and now again issuing more shares to obtain more capital → it is called FPO. ⇒ Rights issue (अधिकार निर्गम): Company issues additional shares but gives first right to existing shareholders to buy them, if they refuse then offered to outsiders.
Other methods / terms	Offer for sale / Private placement / Qualified institutional placement (QIP) / Issuing bonus shares / share splitting / share swap / share buyback / PE Ratio etc. = NOT IMP. However, to satiate your curiosity you may self-study them from Investopedia, but that's not the best use of your time!

15.6.1 IPOs- Big sized IPOs in recent years

- ⇒ **2019:** Saudi Arabia's public sector oil company **Aramco** issued world largest IPO worth >\$25 billion. It was listed at Riyadh's Tadawul Stock Exchange.
- ⇒ **2020:** **Jack Ma**, founder of China's e-commerce company **Alibaba**. He started "ANT" company to provide Financial services such as loans, insurance, Mobile payment (App 'Alipay') 2020-Oct/Nov: **ANT IPO**



launched to mobilize over \$30 billion from (i) Hong Kong Stock Exchange and (ii) Shanghai exchanges. Hence known as 'dual listing'. It attracted subscription bids over \$3 trillion. This is bigger than India GDP! 🤖 **Controversy?** Founder Jack Ma criticised Chinese sharemarket regulator, then regulator suspended his IPO/shares.

- ⇒ 📊 ES20 & 📊 ES21 : No of IPO-issuing Companies have 📉: 134 (2017) → 103 (2018) → 49 (2019) → 33 (2020). Which indicates problems like protectionism (trade war/nations imposing heavy tax on imported items to protect local industries (📖 Ref: Pillar3), NPA (bad loans 📖 Ref Pillar1B2), slowdown in consumer demand by Corona= preventing some of the companies from expanding further.
- ⇒ Amount of ₹ mobilized through IPO 📈 [₹31,000 cr in 2020 while ₹11,000 in 2019]

15.6.2 🏢📦👤 IPO → Special Purpose Acquisition Company (SPAC)

- ⇒ SPAC is a type of company which does not do production of goods and services by itself, so it's also labelled as shell company/blank cheque company. (स्वयं से किसी वस्तु या सेवा का उत्पादन नहीं करती)
- ⇒ It is created only to acquire share (equity) capital from the public through initial public offering (IPO) & use that money to buy / acquire another company. (मात्र अन्य कंपनी का अधिग्रहण करने के लिए बनाया)
- ⇒ If the acquisition is not made within two years of the IPO, the SPAC is delisted and the money is returned to the investors.
- ⇒ Why in the news? USA's RMG-II is a Nasdaq stock exchange-listed Special Purpose Acquisition Company (SPAC). RMG-II acquired an Indian company "ReNew Power" through this process.

15.6.3 🏢📦🌐 ADR/GDR: Shares in *Videshi* locker



Figure 2: बिना अमरीकी SEBI में पंजीकरण किए, उनके शेयरबाजार से पैसा उठाऊँ, तो कैसे?

- A non-American company wants to mobilize money from American share market but does not want to go through the lengthy & complex process of registration with the American sharemarket regulator.
- Then such non-American company gives its shares to an American bank.
- Based on those (non-American) shares, the American bank will issue American Depositary Receipts (ADR: अमरीकी निपेक्षागार रसीद) & sell them to American investors. **Denomination:** USD.
- **Global Depositary Receipt (GDR):** Same as above, but when single bank issues receipts for investors in multiple countries. **Denomination:** usually USD or Euro.

Share issuing company →	Deposits his company's shares in a bank of →	That bank issues -- in local market in – currency
Non-American company →	American Bank →	Issues ADR (in \$) in American Sharemarket
Non-Indian company →	Indian Bank →	Issues Bharat / Indian depositary receipt (IDR) (in ₹) in Indian Sharemarket



15.6.4 🧐👤🏠🌐 ATMANIRBHAR reforms in ADR/GDR/BharatDR

Company	Wants to	BEFORE	AFTER 🧐 ATMANI
👤 Indian company	wants to acquire capital from abroad, via ADR/GDR	✅ Allowed	✅ Allowed
👤 Indian company	wants to acquire capital from abroad by directly listing its shares in a foreign stock exchange	🚫 Not allowed by Indian authorities	✅ now it's allowed
👤 Foreign company	wants to acquire capital from India, via BharatDR/iDR	✅ Allowed	✅ Allowed
👤 Foreign company	wants to acquire capital from India by directly listing its shares in Indian stock exchange	🚫 Not allowed by Indian authorities	🚫 Not allowed by Indian authorities

- ⇒ **Before:** Direct listing by the Indian companies on foreign/overseas stock exchanges was not permitted. (due to danger of money laundering, China/ISI mischief etc.)
- ⇒ So Indian companies had to use ADR/GDR type mechanisms, But, relatively difficult to attract investors in through ADR/GDR routes, nowadays. (compared to directly listing shares.)
- ⇒ After 🧐 ATMANIRBHAR: Indian companies allowed to directly list their shares in foreign nations stock exchanges. → Foreign capital/dollars can be attracted towards India → factory expansion, jobs 📈 → economic revival. (अर्थतंत्र को पूर्णजीवित करना)

15.6.5 🧐👤 Initial Coin Offering (ICO)



Figure 3: Cryptocurrency में पागल हुई पब्लिक को फिरसे बेवकूफ बनाऊ, तो कैसे?

- ⇒ Company wants investors' money for launching new cryptocurrency, or service/app related to an existing cryptocurrency.
- ⇒ Then, it'll issue Initial Coin Offering (ICO) → Investor subscribes to it, and receives 'tokens' (and not SHARES). Investors can use the 'tokens' to buy companies coins/services or may sell it to a third party.
- ⇒ RBI has cautioned Indians not to invest in such instruments, because of the dangers which we already learned in the Handout Pillar#1A-1: Bitcoins.



15.7 STOCK EXCHANGES / SECONDARY MARKET: MEANING & EXAMPLES



Shares are issued through IPO @Primary market. Then, they can be resold at secondary market, commonly known as *Share market* or *Stock Exchange* or *Bourses*.

- ⇒ **World's Oldest:** Amsterdam Stock exchange, Netherlands (1602)
- ⇒ **Asia's Oldest:** Bombay Stock Exchange (BSE: 1875)
- ⇒ India's stock exchanges chronology: BSE → A'bad → Kolkata → NSE (early 90s)
- ⇒ Just like Banks have Core Banking Solutions for e-banking, Stock exchanges have their electronic platforms for trading. E.g. **BOLT** (BSE's On-line Trading System), **NEAT** (National Exchange for Automated Trading). They communicate using **VSAT** (Very Small Aperture Terminal) Satellite.
- ⇒ **(Full) Budget-2019:** we'll set up a **Social Stock Exchange** under SEBI's regulation. It'll help social enterprises and voluntary organizations to raise capital as equity, debt or mutual funds. Then SEBI setup **Ishaat Hussain** panel to study it.

15.7.1 Secondary Market: Significance? (द्वितीयक बाजार का महत्व)

- ⇒  **Cost of Transactions**. You don't have to search around for buyers/sellers manually. सब लोग एक जगह पे मिल जाते हैं। एक दूसरे को ढूँढने में रिक्शा का खर्चा/लागत बच जाता है।
- ⇒ **Providing Liquidity to Financial Assets**. तरलता बढ़ती है क्योंकि खरीदार मिल जाता है।
- ⇒ **Facilitating Price Discovery of shares / bonds**. औकात पता चल जाती है कंपनी की।
- ⇒ Investor sells securities in secondary market → ₹₹ could be re-invested to a new company's IPO in primary market → **Contributes to Economic Growth**. (पुरानी घटिया कंपनी में से निवेश की रकम निकाल कर नई और बहतर कंपनी में निवेश हो सकता है)

15.7.2 DEMAT Account



Figure 4: कागजी शेयर्स को चोरी/आग से बचाऊँ, तो कैसे?

- ⇒ If shares and bonds are traded in paper-form, then transactions are slow & prone to the risk of theft, forgery and fire. कागजी स्वरूप में शेयर से रखे जाएँ तो चोरी होने का जालसाजी का आग लगने का डर .
- ⇒ Depository is an organization that holds the securities (like shares/bonds etc.) in electronic (=DEMATERIALIZED) form. Then facilitates its trading online.
- ⇒ Upon client's request, Depository can 'rematerialize' it as well (i.e. giving physical/hard copy of share/bond etc) to client.
- ⇒ Customer must open a "Demat" account in a depository-partner (DP) which can be a bank or an NBFC.



⇒ SEBI regulates them under the Depositories Act 1996. Notable examples:

- Central Depository services Limited (CDSL)
- National securities depository Limited (NSDL: started by SBI, IDBI, UTI, NSE et al). NSDL also has RBI license to operate Payment Bank

15.7.2.1 ISIN Number

- ⇒ International Securities Identification Number (ISIN) is a Unique 12 characters, consisting of both letters and numbers. प्रतिभूतियों का अंतरराष्ट्रीय पहचान संख्यांक
- ⇒ It's a serial code to identify securities e.g. Reliance Industries Limited Shares ISIN: INE002A01018; Infosys Shares: INE009A01021.
- ⇒ Prevents mistakes in buying/selling shares/bonds of companies with similar sounding names. Facilitates the digital transactions through DEMAT account. ताकि मिलते जुलते नाम वाली कंपनियों में गलती ना हो
- ⇒ RBI issues ISIN for G-sec/T-bill. NSDL issues ISIN for securities other than G-Sec/T-bill.
- ⇒  (Full) Budget-2019: technical reforms in ISIN for ease in issuing Corporate Bonds.

15.7.3 Types of Investors: Depending on Buying Capacity

1.  **Qualified Institutional Buyers (QIB अर्हता प्राप्त संस्थागत निवेशक):** Investors with expertise and financial muscle to make large investments in capital markets. E.g. Mutual Funds, Insurance Company, Foreign Venture Capital Funds etc. SEBI has separate registration norms for them.
 - a. **Anchor investors:** They're sub-type of QIBs who are offered shares before IPO-launch. This gives confidence to other investors to subscribe the given IPO.
2.  **Retail investor:** An individual investor who is not a QIB. (आम/खुदरा निवेशक)
Underwriter will keep quota for each category of investors, as per SEBI norms.

15.7.4 Types of Investors: Depending on Buying Behaviour



1. **Jobbers (आढ़ती):** Full time engaged in buying / selling securities using money from their own pockets. (Whereas brokers / commission agents buy/sell using money/shares of their clients).
2. **STAG (Male Deer):** He buys newly issued securities **from primary market** & sells them in secondary market for quick profit. प्राथमिक बाजार से खरीद के द्वितीयक बाजार में मोटे मुनाफे पर बेचने की इच्छा रखता है
3.  **Bull (तेजड़िया):** Optimistic speculator who hopes share prices will rise , so purchases (to sell them later at much higher price). Just like a bull tends to throw his victim up in the air, the bull speculator stimulates the price to rise.
4.  **Bear (मंदड़िया)** – A pessimistic speculator who fears prices will fall , so, he sells. A bear usually presses its victim down to ground. Similarly, bear speculator tends to force down the prices of securities.
5.  **Day trading / Intra-day trading:** Individuals buy and sell shares over the Internet over a period of a single day's trading, with the speculative intention of profiting from small price fluctuations.



Further subtypes with various animal / bird names can be found on Investopedia but with poor cost : benefit in exam. # 🐦 थोड़ा-पढ़ो-आगे-बढ़ो

15.8 SENSEX & OTHER NOTABLE INDICES (उल्लेखनीय संकेतक/ सूचकांक)

- ⇒ **SENSEX?**: Sensitive Index/ संवेदी सूचकांक. It's the weighted average of Free Float Market Capitalization (FFMC) of 30 companies, selected by Bombay Stock Exchange BSE's "Index Cell".
- ⇒ **NIFTY?** National Stock Exchange NSE index of 50 companies.
- ⇒ **Nikkei?** Tokyo Stock Exchange index of 225 companies.

SENSEX – when does it go up	Goes down when
🔗 RBI's soft /easy monetary policy → cheap loan & credit cards → consumers to spend more → more profit to company → more dividend : investor thinks “ <i>better I buy more shares to get more dividend</i> ”: Bullish	💧 Tight monetary policy (More in 📖 Pillar#1A2) संकुचन वादी मौद्रिक नीति के दौरान सेंसेक्स नीचे गिरेगा
Peace, Economic boom / prosperity, Political Stability (शांति, आर्थिक समृद्धि, राजनीतिक स्थिरता)	🔪 War, recession, political instability → Bearish market. (युद्ध, मंदी, राजनीतिक अस्थिरता)
When govt. hikes foreign direct investment limits	When govt reduces FDI limit
Merger-Acquisition, New product launched, Environmental clearance given to factory	CEO/MD arrest/FIR, Courts slapping fine, media exposing scandal... (कोई कांड हो जाए)

15.8.1 Force Majeure (अभेद्य शक्ति)



Figure 5: Corona के चलते बिजनेस प्रोजेक्ट पूरा नहीं किया, तो क्या जेल में भेज दोगे, या फांसी पे लटका दोगे? कुछ नहीं उखाड़ सकते मेरा!

- ⇒ **French word** for 'superior force'. It refers to unexpected external circumstances (अप्रत्याशित बाहरी परिस्थितियाँ) that prevent a party to a contract from meeting their obligations. e.g. *Acts of God* (natural disasters, epidemics), war, terror attacks.
- ⇒ In such cases, courts may not punish party for dishonoring contract. (करारनामे के दायत्व को न निभाना)
- ⇒ E.g. **Corona (COVID-19) Virus** → Singapore Govt put restrictions on entry of Chinese → Singapore construction firms facing labour crunch (श्रमिकों की कमी) → invoked 'Force Majeure' to clients, “we can't finish building your homes/offices in time.”
- ⇒ Coronavirus: >55million people infected across the world (as of 2020-Oct).
- ⇒ Restriction on global travel and trade. Investors fear that companies will not generate much profit. Many contracts/ payments will be stuck by Force Majeure. So, large scale withdrawal / exit of share investors from stock exchanges across the world. Even the BSE SENSEX fell by 1400+ points in a single day in 2020-June Month. However in later months, share market has significantly.



15.9 SENSEX: IMPACT OF CORONA

ES21 Vol2Ch4: observed When comparing Year 2020 (Jan to Dec) to 2019:

- ⇒ Nifty50 [Highest ~15k points] & BSE SENSEX [Highest ~50k points]
- ⇒ Stock Exchange Volatility declined , esp after March-202, as measured by "India VIX index" of NSE. (अस्थिरता कम हुई है)
- ⇒ Share Prices of Pharma, IT companies , But Airline/Luxury goods/fashion
- ⇒ Biz of Mutual Funds (धंधे में बरकत)
- ⇒ Incoming Foreign Portfolio Investment (FPI) has [270 billion\$] (More in Pillar#3A)

2020- Initial months of lockdown, due panic among investors, Force Majure but then because (शुरु-शुरु के महीनों में गिरावट किंतु बाद में बहुत तेजी आई क्योंकि...)

1. Cheap Loans / Expansionary Monetary Policy → Some of that money may have entered the share market through to large investors. (विस्तार वादी मौद्रिक नीति)
2. 'work from home' + RBI loan Moratorium- may have encouraged many service sector employees to invest ₹ in the sharemarket. (तालाबंदी के दौरान लोन की किस्त नहीं चुकानी थी तो कुछ ने वह रकम शेयर बाजार में निवेश की होगी)
3. Unprecedented demand and profit for IT and Pharma sector- Encouraged the investors to park their money in such shares at very high price. (तालाबंदी के दौरान सूचना प्रौद्योगिकी और औषधीय कंपनियों में अप्रत्याशित तेजी)
4. Youtubers/Reddit/Social media influencers giving online share trading Tips. Many Apps available.
5. American video game store company GAMESTOP's shares 1625% in 1 year. Such gimmickry will attract more small investors to invest although in future they will lose when 'overpriced' shares see 'correction' in the share market. Associated keyword "short squeeze trading" [What it means? how it works? Ans. not important]

15.9.1 Share Market: Impact of Bond Yield

- ⇒ Bond yield is the profit you make on Bond investment.
- ⇒ If Mr.Bhide buys ₹100 principal bond with 10% interest = his yield = $(₹110-100) / ₹100 \text{ investment} = 10\%$ but if he sells it to Mr.Jetha at ₹90 then Jetha's yield = $₹(110-90) \text{ interest} / ₹90 \text{ investment} = 22\% \text{ Profit}$. Thus bond yield (profit) , If you manage to buy bond at a cheaper than the original (face value) price.
- ⇒ 2021-Feb-March: When bond yield , some investors sold their shares of the low performing companies → to invest into bonds → sharemarket fell for some days/weeks.

In the parlance of financial investment, 'Bear' denotes [UPSC-CDS-2012]

- (a) an investor, who feels that the price of a particular security is going to fall.
- (b) an investor, who expects the price of a particular share to rise.
- (c) a shareholder, who has an interest in a company, financially or otherwise.
- (d) any lender, whether by making a loan or buying a bond.

Which of the following statements is/ are correct? [UPSC-CDS-2012-I]

1. NIFTY is based upon 50 firms in India.
2. NIFTY is governed and regulated by the Reserve Bank of India.
3. NIFTY is the stock index of Bombay Stock Exchange.

Answer Codes: (a) Only 1 (b) Only 2 (c) Only 3 (d) 1 and 3



15.10 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)



- ⇒ भारतीय प्रतिभूति और विनिमय बोर्ड, HQ- Mumbai
- ⇒ (1988) Formed by an executive order → (1992) Became Statutory Body → powers increased through amendments in 1999 & 2014. Now it can order search and seizure, attachment of properties, arrest and detention. (खोज अभियोग, संपत्तियों की जब्ती/कुर्की, गिरफ्तारी और निरोध)
- ⇒ **SEBI Board Composition:** Chairman + 1 officer from RBI + 2 officers from Union Government + 5 members appointed by Union Government.
- ⇒ **Chairman:** upto 5 years / 65 age. Reappointment possible. Ajay Tyagi (IAS) initially given 3 years term in 2017, could be extended in future. His tenure was set to expire in 2020-Aug. But, the government extended it for another 18 months (till 2022) to ensure organizational stability amid the Covid-19 pandemic. (खामखा नया अध्यक्ष ढूँढने जाएँ और वह अपनी तरंग से काम बर्बाद ना करें इसलिए पुराने अध्यक्ष को नौकरी पे चालू रखा)
- ⇒ Regulates **Process** of issuing securities (Bonds, Shares, IPO, ETF, ReIT, INVITs, etc.) using the Securities Contracts Regulation Act, 1956 [SCRA: प्रतिभूति संविदा विनियमन]
- ⇒ Regulates **Places** (Depositories, Stock exchanges, Commodity Exchanges etc.)
- ⇒ Regulates **Persons** (Investors, Brokers, Fund Managers, Public Limited companies etc.)
- ⇒ Regulates any Collective Investment Scheme (CIS) of ₹100 cr/> [In the aftermath of SAHARA scam & Chit Fund scams. सामूहिक निवेश योजनाएँ]
- ⇒ **Further appeal:** Securities Appellate Tribunal (SAT) → Supreme Court.
 - Same SAT also hears appeals against the orders passed by Insurance Regulatory Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA). (More in  Pillar#1D)
- ⇒ SEBI has “SCORES” online portal for complaint. (निवेशक इधर ऑनलाइन फ़रियाद करें)
- ⇒ SEBI has **Securities Market Trainers (SMARTs)** Program for investor education (निवेशक प्रशिक्षण)

15.10.1 Securities Market Code & Investor charter (निवेशक अधिकार पत्र)

- ⇒  Budget-2021: we'll create a single new law named "Securities Markets Code" by merging older acts 1) SEBI Act, 1992, 2) Depositories Act, 1996, 3) Securities Contracts (Regulation) Act, 1956 4) Government Securities Act, 2007. (पुराने विभिन्न कानूनों का एकीकरण विलीनीकरण करके "प्रतिभूति बाजार संहिता" नामक नया कानून बनेगा)
- ⇒  Budget-2021: we'll create an "investor charter" (निवेशक अधिकार पत्र) for financial investors across all financial products (Share, Bond, derivatives, Commodities market etc). **Note:** A citizens' charter (नागरिक अधिकारपत्र) is a document of commitments made by a government agency to the citizens in respect of the services being provided to them. e.g. if "X" problem is not solved in "Y" days then complain to "Z" officer on ABC Phone number / email address etc.

Benefits of Securities Market Code & Investor charter?

- ✓ Ease of doing business & Ease of doing investment (व्यापार और निवेश में सुगमता होगी)
- ✓ More clarity over rights and responsibilities financial market participants [Individual Investor, Share Broker, Stock Exchange, Depository, Underwriter, Companies etc] अधिकार और जिम्मेदारियों में स्पष्टता होगी
- ✓ Deepening of the financial market, Mobilisation of savings to the productive channels of economy



15.10.2 📦👤: 🦋 SEBI: why protect investors & 📈 investors participation?



Figure 6: पूंजी बाजार की जड़ों को गहरा करना है तो सिर्फ अमीरों का नहीं, गरीबों की बचत का पैसा भी जाना चाहिए!

- ⇒ Share market scams erode publics' hard-earned savings → alcoholism, depression, suicide and other social ills. (जनता की बचत का पैसा घपले में बर्बाद तो जनता में शराब, अवसाद, आत्महत्या और अन्य सामाजिक बुराई)
- ⇒ Duped investors will shy away from share market & they may invest in gold / real estate = not very beneficial to economy as it our import-bill, creates black money opportunities.
- ⇒ If households don't participate in capital market → companies will have to approach the banks to get more loans. But banks' lending capacity is limited by CRR, SLR, PSL, NPA, PCA. (REF in 📖 Pillar#1B2)
- ⇒ If more retail investors participate in capital market = "Deepening of the capital market" → factory expansion, job creation, and economic growth. (खुदरा निवेशक की मदद से पूंजी बाजार की जड़ों की ओर गहरा करना- ताकि रोजगार सृजन और आर्थिक वृद्धि में मदद मिले)

15.10.3 📦🦋 (Full) Budget 2019: measures to 📈 retail investors participation

- ⇒ For all the listed PSUs, Government will strive for minimum 25% public shareholding. (आम जनता को भी सरकारी कंपनियों के शेयर खरीदने का मौका मिले)
- ⇒ SEBI to raise minimum public shareholding in listed companies (other than PSUs) from 25% to 35%.
- ⇒ 🦋ATMANI: minimum shareholding related norms deferred under Corona crisis.

15.10.4 📦👤: 🦋 SEBI Reforms to boost investors' confidence?



Harshad Mehta

Ketan Parekh

- ⇒ Harshad Mehta (1992), Ketan Parekh (2001) arranged money from banks, used it for rigging the share prices to make windfall gains during Bull-runs by other investors. Once the prices crashed, small investors suffered. बैंकों से गबन बंद करके पैसा लाए जिससे कंपनियों के शेयर जमकर खरीद के उसकी मांग और दामों को बढ़ाया ताकि लालच में अन्य निवेशक भी उन कंपनियों के शेयर ऊँची कीमतों में खरीदने लगे अंत में यह लोग अपने शेयर बेच कर भाग गए
- ⇒ To prevent such scams, SEBI introduced **Circuit Breaker System**, wherein if fluctuation in the share prices is more than "x%" than previous day, then stock exchange must stop trading for "y" minutes.
- ⇒ Badla System/Carry forward system:
 - Buying of shares using borrowed money & making promises to carry forward the settlement for upto 72 days. scammers misused (इसकी टोपी उसके सर पे)
 - so SEBI discontinued it (2001) & introduced (T+2) **rolling settlement system** i.e. after trade is conducted, the parties must settle it within two working days (= buyer pays money, seller deliver shares/bonds/securities).
- ⇒ Rupal Panchal (2005) opened multiple **fake DEMAT accounts** to increase the chances of getting share



allocations in IPO. Then she'd sell such shares in stock-exchange for higher prices. Subsequently, SEBI made PAN Card (issued by Income Tax Dept) compulsory for opening DEMAT Accounts. SEBI also introduced ASBA (**Application Supported by Blocked Amount**)- it allows the underwriter to block the amount in IPO-investor-applicant's bank account, but only IF shares allotted to the applicant, his bank money will be deducted. ASBA-Benefits:

- (1) only serious investors with sufficient bank balance can apply.
- (2) investor continues to earn bank interest on his blocked amount until the process of IPO-share allotment is over.

- ⇒ SEBI requires Stock exchanges (BSE, NSE etc) and commodity exchanges (NSE, MCX etc) to setup **Investor Protection Fund (IPF: निवेशक सुरक्षा कोष)**. IPF covers investors' 'non-speculative' type of losses. e.g. if the other party is not delivering shares because of some court case. IPF also promotes investor education and awareness.
- ⇒ **Dabba Trading / Bucketing / Box Trading**: While share trade occurs at stock exchange linked with DEMAT accounts, the Dabba Trades occur in the unofficial books/ledgers of an unscrupulous broker. He may or may not execute those orders in actual DEMAT account. Investor prone to scam, govt deprived of taxes. So, SEBI declared it illegal.
- ⇒ **Insider Trading (भेदिया लेनदेन)**: Whenever company launches new products, wins unique patents, or undergoes merger/acquisition- its share prices may . If a person associated with company uses such confidential information for buying/selling shares to make windfall gains. Such insider trading is **illegal**.

15.10.5 () Algo Trading & Co-Location

- ⇒ Algo-Trading = Some large brokers / companies use algorithmic trading computer programmes to automatically buy / sell securities at a speed and frequency that is impossible for a human trader. This can be misused for manipulating the share prices. While SEBI has **not banned** it, but issued technical measures e.g. a single broker / investor can't place more than 100 online orders per second.
- ⇒ Co-location = stock exchange allowing the share broker to install their office/computer systems very close to Stock Exchange. Then broker's computers can monitor/buy/sell shares quicker than a computer sitting 500 kilometers away: So, co-location gives added advantage, esp for the Algo-Traders.
- ⇒ 2021: SEBI fines National Stock Exchange (NSE) For violation of some norms related to co-location.

15.11 () BOND MARKET REFORMS

15.11.1 () Unified Bond Market (एकीकृत बॉन्ड बाजार)

- ⇒ At present (1) Government bonds' (G-Sec) market (2) private sector / Corporate Bonds market are functioning separately. Because
 - (A) RBI depository for G-Sec/ T-Bill is separate. Where govts, banks, NBFCs and primary dealers can participate, and minimum investment guidelines are high (e.g. investor's g-sec buying order must be minimum "X" lakh rupees, else RBI rejects application)
 - (B) SEBI regulated depositories (For non-Government = private sectors' share/bonds) is separate- where retail investors/common men register & participate.
- ⇒ Budget-2019 promised reform to connecting these two platforms, to facilitate retail investors' participation in G-sec. (आम जनता भी सरकारी प्रतिभूतियां सीधे ही खरीद सकें)
- ⇒ 2020: SEBI proposed "**unified bond market**" where both G-sec & Corporate Bonds will be available for buying/selling. This will (1) help govt mobilize public's savings more easily for its welfare schemes (2)



Give small/retail investors easier opportunity to invest directly in G-sec. लेकिन ये असल में अभी बनना बाकी है।

15.11.2 📈 (🔧📦👤👤) Deepening of G-Sec market- Direct Retail participation @RBI

- ⇒ **Before:** Retail investors invested in G-Sec indirectly via Mutual Fund Companies /Stock exchange through NDS-OM (Negotiated Dealing system-order matching).
- ⇒ **AFTER:** RBI allows retail investors to open "Gilt account" in RBI Direct facility in E-Kuber Core banking solution (CBS) platform= they can directly purchase fresh G-Sec from RBI (=Primary market) & resell it to other investors (=secondary market) later on.

15.11.3 📈 (🔧📦👤👤) Bond Buying Institution in 📅 Budget-2021

- ⇒ Secondary market-Provides liquidity to the investor -Since he can sell existing shares/bonds and hand to others → motivation to buy new shares/bonds in primary market → capital to healthy new company.
- ⇒ But in India, the secondary market for bonds is not fully developed. Inadequate number of large players → Difficult to re-sell the bonds at the right prices → 🧐 discourages the investors from bonds → Difficult for companies to mobilize ₹ (द्वितीयक बाजार में बांड को बेचने में असुविधा के चलते निवेशक बांड से कतराते हैं)
- ⇒ So, 📅 Budget-2021: Proposed to setup a body/organization to purchase investment grade debt securities. This body will buy bonds both in stressed and normal times.
- ⇒ 😊 Benefit? development/Deepening of the Bond market. (बांड बाजार की जड़ों को गहरा करें)
- ⇒ 🖐 Exact name of the organisation? headquarter? Ans. details yet to be announced.

15.12 📈📦🏠🤝 COMMODITY MARKET, FMC, SEBI MERGER

- ⇒ A commodity market / exchange (वस्तु बाजार) is a place where buyers & sellers trade goods in bulk - food grains, cotton, precious metals or energy resources (coal, oil gas)
- ⇒ **"Commodity Futures":** Type of contract for future delivery and settlement of commodity e.g. "on 1/5/2021, I shall deliver you 500 quintals of wheat at X price".
- ⇒ Commodity exchanges were under a statutory regulator Forward Market Commission (FMC) under the Ministry of Consumer Affairs and Public Distribution.
- ⇒ But Jignesh Shah generated fake receipts without any commodities in the warehouses & traded at NSEL-commodity exchange. FMC failed to prevent scam. (एक कांड हो गया था)
- ⇒ So first FMC transferred to Finance Ministry and FMC ultimately merged with SEBI (2015).

15.12.1 📈📦🏠🤝 Commodity Market: Gold exchanges & 📅 Budget-2021

- ⇒ Gold exchange is a special type of commodity market devoted only to Gold trading.
- ⇒ 📅 Budget-2021: We will undertake reforms in the regulation of gold exchange markets in India. 1) SEBI will be the regulator 2) Warehousing Development and Regulatory Authority (WDRA- Statutory body under Dept of Food and Public Distribution) Will be responsible for Warehousing/Vaulting, Assaying, Logistics of gold exchanges. (भंडारण, गुणवत्ता परीक्षण, रसद के मामलों की जिम्मेदारी)

15.13 🧑🏻 RELATED BODIES WITH SIMILAR SOUNDING NAMES



Figure 7: अभी भी इतने सारे "कांड" क्यों हो रहे हैं, गवर्नर साहब? - वित्तमंत्री @FSDC meeting.



FSDC (2010) वित्तीय स्थिरता और विकास परिषद	- Financial Stability & Development Council: Chairman – Finance Minister. Other members – 1. RBI Governor 2. SEBI chief 3. IRDAI chief 4. PFRDA chief 5. IBBI chief & govt officials - Functions? Supervision of the economy & large financial conglomerates, coordination among the financial regulators, financial literacy and financial inclusion. - Secretariat assistance by: FinMin → Dept. of Economic Affairs (आर्थिक मामलों का विभाग)
FSB (2009) HQ: BASEL	- Financial Stability Board is a brainchild of G20. (वित्तीय स्थिरता बोर्ड) - Functions? Financial monitoring at global level, Coordination between national financial regulators bodies. (अलग-अलग देशों के वित्तीय नियंत्रक के बीच तालमेल) - India has 3 seats in FSB: 1) Secretary of Department of Economic Affairs (IAS) 2) Dy. Governor of RBI 3) SEBI chairman
FATF (1989) HQ: Paris	- Financial Action Task Force (वित्तीय कार्रवाई कार्यदल) is a brainchild of G7. - India member in 2010. Function? Combating Money laundering and terror finance. (More 📖 Pill#2) (धन शोधन और आतंकी वित्तपोषण से लड़ना)
IOSCO	- International Organization of Securities Commissions (IOSCO) is the international body of world's securities regulators. SEBI is a member. - Famous for its IOSCO Guidelines for Investors Protection & risk prevention

📖 ? 'Financial Stability and Development Council': find correct statement(s): (Pre-2016)

- It is an organ of NITI Aayog.
- It is headed by the Union Finance Minister
- It monitors macro-prudential supervision of the economy.

Answer Codes: (a) 1 and 2 only (b) 3 only (c) 2 and 3 only (d) 1, 2 and 3

15.14 📦 🐼 🧑 INVESTMENT FUNDS → MUTUAL FUND (MF) FOR AAM-AADMI

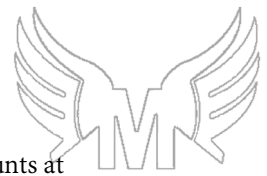


Figure 8: swag से करेंगे 'middle-class' का 'स्वागत'। Observe colors in logo, meant for attracting ordinary crowd

- ⇒ Mutual Fund is an Asset Management Company (AMC-NBFC) that pools savings of (retail) investors and gives them "Units".
- ⇒ MF Manager parks this money in securities & builds his 'portfolio'.
- ⇒ Whatever dividend/ interest is generated from the portfolio, it is distribute among investors in the proportion of their units.
- ⇒ Investor pays **Entry Load** (= fees for joining), **Exit Load** (= fees while quitting). SEBI regulates these fees.
- ⇒ Due to low deposit rates in banks, people invested money in mutual funds however post-IL&FS crisis, corona crisis, charm declining because mutual funds are subject to such market risks.
- ⇒ **"Side pocketing"**: SEBI 's technical guidelines to help MFs to separate their IL&FS type stressed/toxic assets from their standard assets. Helps protecting the investors. How? NOTIMP.

15.14.1 📦 🐼 🧑 Mutual fund → SIP, ELSS, ULIP

- ⇒ **Traditional Mutual Fund** = client invests the entire amount at once. एक साथ पूरी रकम जमा करानी होती है



- ⇒ **Systematic Investment Plan (SIP)**= Mutual fund wherein client deposits small-small fixed amounts at fixed interval e.g. month basis, quarterly basis etc. ग्राहक छोटी-छोटी किस्तों में रकम जमा करवाता है
- ⇒ **Equity Linked Savings Scheme (ELSS)**= It is a sub-type of mutual fund where money is locked in for 3 years and invested in equities (shares). It's eligible for certain benefits in Income Tax.
- ⇒ **Unit linked insurance policy (ULIP)**= client invest money in a scheme wherein → (1) some ₹ goes into Mutual Fund (2) some ₹ goes into insurance policy (📄 Ref: HDT-Pillar#1D)

15.14.2 📁 🧑🏫 🧑🏫 Mutual fund → 📊 Mutual fund risk-o-meter

- SEBI requires the mutual fund company to disclose how much risk is present in their scheme, on a monthly basis, thru a digital dashboard called 'risk-o-meter'. (कितने जोखिम पूर्ण तरीके से निवेश कर रहा है)
- It shows 6 categories of risk: low, low to moderate, moderate, moderately high, high, (#)very high risk. (#) SEBI added this new category 'very high risk' in 2020-Oct.

15.15 📁 🧑🏫 🧑🏫 INVESTMENT FUNDS → HEDGE FUND (हेज फण्ड) FOR RICH-AADMI



Figure 9: Swag से नहीं करेंगे 'middle-class' का 'स्वागत'। Observe 'premium' logo-designs to attract rich people

- ⇒ Special type of Mutual Fund meant for HNI (High Net Worth Individual) who wants high risk high return. SEBI norms: Minimum investment per person is ₹1 crore. (सिर्फ अमीरों के लिए है)
- ⇒ Hedge Fund manager will invest their money in Junk Bonds, Risky assets; he'll do risky trading activities such as Arbitrage, Leverage, Short Selling etc. to generate maximum return. (how is that done in real life = UPSC-CSE not for recruitment of HF managers.)

15.16 📁 🧑🏫 🧑🏫 INVESTMENT FUNDS → SOVEREIGN WEALTH FUND (SWF: संप्रभु धन कोष)

- ⇒ State owned investment fund, wherein central bank, finance ministry and other public sector financial intermediaries park their surplus fund. → money used for investment.
- ⇒ E.g. 2020-Jun: Abu Dhabi Investment Authority (ADIA) bought 1.16% of Reliance Jio for ₹5600+cr. Singapore's GIC sovereign wealth fund, Qatar Investment Authority (QIA) also active in Indian market.
- ⇒ **Sidetopic:** What is National Investment & Infrastructure Fund (NIIF) Ans. Ref: Pillar#5: Infrastructure

15.17 📁 🧑🏫 🧑🏫 INVESTMENT FUNDS → REITs / INVITs: FOR RICH-AADMI

	REITs: Real Estate Investment Trusts - (भू-भवन-संपत्ति निवेश न्यास)	InvITs: Infrastructure Investment Trusts-(अधिसंरचना)
Who can invest?	HNI / institutions: Min. ₹2 lakh ₹50,000 investment per ASBA application	₹10 lakh. ₹1 lakh, ASBA (SEBI 📉 Minimum limits in 2019 to attract more investors)
Manager parks the money in?	in real estate projects that are soon to complete. He'll earn income from rent / sale.	In airport, highway, thermal plants, gas grid etc. He'll earn from toll collection at highways, services fees at airports etc.
Example	Blackstone-Embassy group	IRB, India-grid

✓ Benefits of REITs and InvITs-

- ✓ Stressed developer gets new finance to finish the project while HNI gets new opportunity to invest his money, and he may also sell the units to third party via stock exchange.



- ✓ SEBI permitted these instruments in 2014. Later SEBI relaxed technical norms related to capital, leverage, issue size but they are not important for us. (Full) Budget-2019: FPIs will be permitted to subscribe to listed debt securities issued by REITs and InvITs. हर तकनीकी नियम अपने लिए काम का नहीं

15.18 📁 🏠 INVESTMENT FUNDS → CPSE-EXCHANGE TRADED FUNDS (ETF: ईटीएफ)

- ⇒ **Disinvestment** (विनिवेश): government sells its shares from Central Public Sector Enterprises (CPSE: केंद्रीय सार्वजनिक क्षेत्र के उद्यम) but does not reduce its shareholding below 51%.
- ⇒ If Govt's shareholding reduced below 51%, then it is called **Privatization** (निजीकरण), although NITI prefers the term '**Strategic Disinvestment**'. (More in Pill#2)
- ⇒ 2014: Govt wanted to disinvest 10 CPSE (ONGC, GAIL Ltd etc). If govt tried to sell individual company-shares, it would be more time consuming, and govt may not get good prices for each company.
- ⇒ So, Govt gave CPSE-shares to a fund manager Goldman Sachs - who created new securities out of it, called "Exchange Traded Funds (ETF)", and made a "New Fund Offer (NFO)" to the public to subscribe to these securities at ₹ 10 per unit.
- ⇒ If an investor holds the ETF → he will get returns from the dividend generated by those CPSE-companies in the backend. He may also sell these ETF to a third party via stock exchange, hence called **Exchange Traded Funds**.

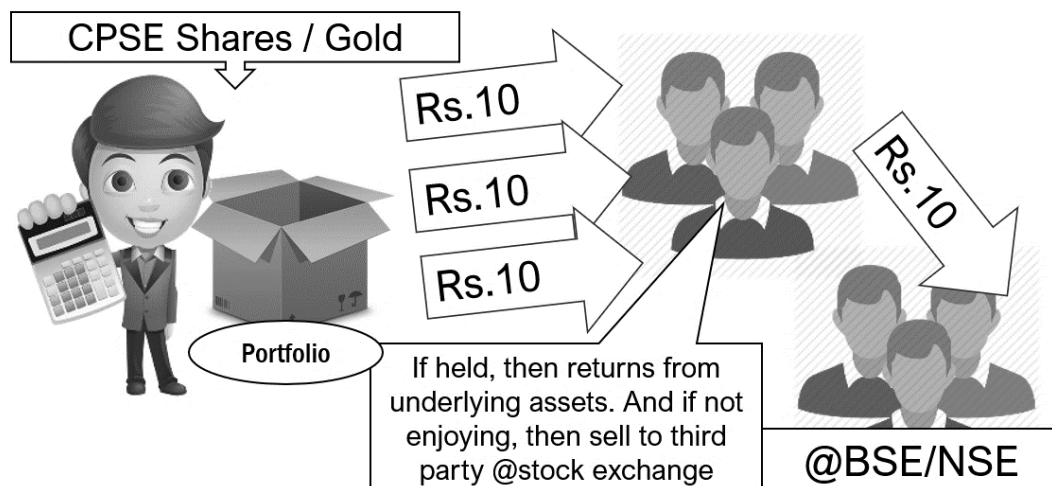


Figure 10: how do exchange traded funds (ETF) work?

- ⇒ **BHARAT-22**: Another CPSE-ETF when Govt wanted to disinvest shares from 22 companies including CPSE, PSBs and UTI using ICICI Prudential as fund manager (2017-18). However, PSB-NPA problem → poor dividends → BHARAT-22 not giving good returns, so, investors response was initially lukewarm.
- ⇒ Later govt announced, "We'll give the ELSS-walla income tax benefits to CPSE-ETF-investors as well" to attract investors.

15.18.1 📁 🏠 📁 🏠 (🏠 📁 🏠) Bharat Bond (Debt) ETF (2019-Dec)

- ⇒ Fund Manager (Edelweiss Asset Management Ltd) → He'll issue Bharat Bond-ETF.
- ⇒ **Maturity**: 3 years and 10 years
- ⇒ **Unit Size**: ₹1000 each. So even middle-class investors buy these Bond-ETFs.
- ⇒ Fund managers will invest this ₹₹ into a basket of bonds issued by Central Public Sector Enterprises, Central Public Financial Institutions (CPFIs such as public sector bank and insurance companies) and



other Government organizations. ETF will be tradable at the stock exchange.

👍 **Bharat bond ETF: Benefits?**

- ✓ **For Government companies** = Easier and more efficient to borrow ₹ instead of individually launching their bonds in the market. एक एक सरकारी कंपनी अलग से बांड जारी करती तो शायद निवेशक सब को नहीं मिल पाते
- ✓ **For Investors** = Safety, assured return on bonds, irrespective of Government company's profit.
- ✓ 📈 retail participation → deepening capital market. (खुदरा निवेशक की मदद से पूंजी बाजार की जड़ों की ओर गहरा करना)
- ✓ 📅 **Budget-2020:** given success of Bharat bond ETF, we are planning to launch another debt-ETF containing G-sec. This will help the retail investors to invest in G-sec.

Misc. : Gold-ETF: Investors give money → manager buys gold for safekeeping and trades it depending on price movements → returns are divided among the unit-holders. In between, the investor may sell his Gold-ETF to third party via Stock Exchange therefore they're also Exchange Traded Funds. **How/why/NOTIMP**

15.18.2 📁📌📊🏠🏢🤝 CPSE-ETF vs Mutual Fund

Table 3: Sad that I've to spoonfeed this much

Mutual Fund	CPSE-ETF
Objective = invest clients' money in shares/bonds	Objective different than Mutual Fund (1) help Government for its disinvestment (2) help Government company to borrow money (Bharat-Bond ETF)
fund managers may buy/sell variety of shares and bonds of Government companies and private sector companies for best returns through out the scheme.	He's not doing that. His objective given above.
a fund manager may also change the composition of the portfolio for example if Infosys shares are not performing well → he may sell them and fill up the box with Wipro shares for better dividend.	His portfolio (list of govt companies' shares/bonds) is fixed. It'll not change.

15.19 📁 INVESTMENT FUNDS → ALTERNATIVE INVESTMENT FUNDS (AIF)

It's a technical classification by SEBI (वैकल्पिक निवेश कोष)

- **AIF Category I:** They generate positive spillover effects on the economy. Example: Venture Capital Funds, Angel investors fund, SME Funds, social venture fund, Infrastructure funds. SEBI keeps relaxed / lighter norms on them. जो कि अर्थतंत्र में सकारात्मक असर उत्पन्न करते हैं
- **AIF Category II:** Neither in Cat-1 nor in Cat-3 E.g. Private Equity or Debt Fund. जो ना तो ऊपर की श्रेणी में है ना नीचे की श्रेणी में है
- **AIF Category III:** They undertake excessive risk to generate high returns in short period of time. E.g. Hedge Funds. SEBI norms are stricter/heavier on them, because otherwise they may destabilize the capital market. जो कि अर्थतंत्र में जोखिम बढ़ाते हैं, नकारात्मक असर उत्पन्न करते हैं

15.19.1 📁📌🏠🏡 Govt's AIF for Real Estate Sector (2019)

- ⇒ 2019-Nov: Govt to setup an alternative investment fund (AIF Category-II) using ₹ of govt, SBI and LIC. (Total 25,000 cr). [Moral outrage: why not in Cat1? Ans. Send your suggestion to SEBI.]
- ⇒ **AIF Fund manager:** SBI Cap ventures ltd.
- ⇒ **AIF Fund manager** will give ₹ (as Debt finance) to builders with unfinished housing projects → demand



for steel, cement, construction workers= economic growth.

15.20 FORWARD / FUTURE CONTRACTS & CALL / PUT OPTION

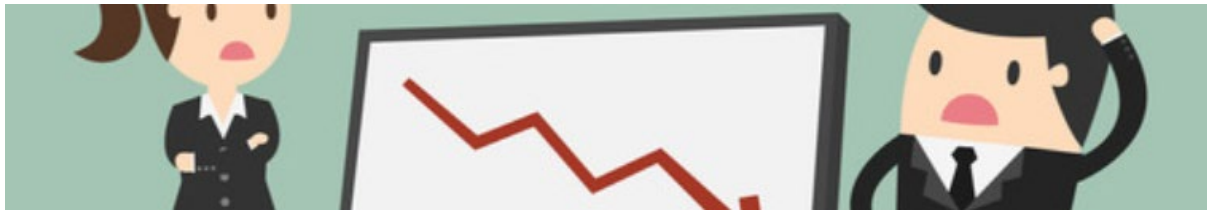


Figure 11: भविष्य में खरीदने का सोदा तो किया, लेकिन दाम गिर जाए, तो खुद को बचाऊँ तो कैसे ?

- A Forward / Future contract is a customized contract between two parties where settlement takes on a future date at a price/quantity agreed upon today. E.g. *on 1/5/2021 I shall sell you 100 nos. of Infosys shares at ₹1000 each.*
- In such contracts, there is a risk of other party not honoring commitment if he's getting better deal elsewhere in the future. So, for protecting (=hedging) themselves, they (=buyer or seller) may buy "Option" from a third party by paying fees. नुकसानी से बचने के लिए बीमा लिया जाए
- Option is a type of insurance for executing the forward/future contract in a manner beneficial to them e.g. I'll sell you for ₹1000 on X date, & you must buy, but if I'm getting another buyer who is willing to pay ₹1500 then I may not sell you & you can't compel me. Such 'insurance options' are further subdivided into **Call Option and Put Option**, their internal difference & real-life mechanism not imp. for UPSC.

 Which one of the following terms is used in Economics to denote a technique for avoiding a risk by making a counteracting transaction? [UPSC-CDS-2016-I]

- (a) Dumping (b) Hedging (c) Discounting (d) Deflating

15.21 DERIVATIVES & SWAPS (व्युत्पन्न प्रतिभूतियाँ और अदला-बदली)

- ⇒ A **derivative** is a contract whose value is derived from the value of another underlying asset which could be a share, bond, commodity or currency. इस प्रतिभूति का मूल्य किसी और संपत्ति से उद्धवित होकर आता है
- ⇒ They're usually generated by the process of 'securitization'. E.g. NHB taking loan papers from banks, using them to generate new Mortgage Backed Securities. (प्रतिभूतिकरण की प्रक्रिया से इसे बनाते हैं)
- ⇒ **SWAP**: is derivative instrument to swap one financial asset with another financial asset (usually) to reduce the risk e.g. Currency Swap Agreement between two countries to protect themselves against dollar volatility (more in  Pillar#3).
- ⇒ Similarly, there are **Credit Default Swap (CDS) agreement** against the risk of default, **Interest swap agreement** to protect against volatility in interest rates. But their mechanisms NOT IMP.

15.21.1 Bilateral Netting of Qualified Financial Contracts Act 2020

अर्हताप्राप्त वित्तीय संविदा/अनुबंध की द्विपक्षीय नेटिंग के लिए कानून/अधिनियम 2020

- ⇒ Suppose, some derivative trades / financial contracts have been made between two parties wherein Mr. Jetha owes ₹10 lakh to Mr.Bhide, while Mr. Bhide owes ₹8 lakhs to Mr.Jetha.
- ⇒ "bilateral netting" is a process to offset claims against each other to determine a single net payment obligation due from one party to another. Accordingly, in our example- Mr. Jetha should pay ₹2 lakh "NET" to Mr.Bhide. (शुद्ध रूप से एक पक्ष ने अन्य पक्ष को कितनी रकम देनी है उसका आखिरी हिसाब लगा दिया जाए)
- ⇒ Previously India did not have a clear legal framework for this process. So lot of capital was tied up unnecessarily into the contracts (e.g. Bhide's ₹8 lakh, अनावश्यक रूप से बहुत सारी पूंजी ऐसे अनुबंधों में अटकी रहती थी)
- ⇒ 2020: Bilateral Netting of Qualified Financial Contracts Act/Bill 2020 Implemented from 1/10/2020.



⇒ 😊 Benefits of new law? 1) Stability, clarity in financial contracts 2) Freeing up the capital tied up in such contracts.

15.21.2 🧑🏻💻📄 Participatory notes (P-Notes: पार्टिसिपेटरी नोट्स)

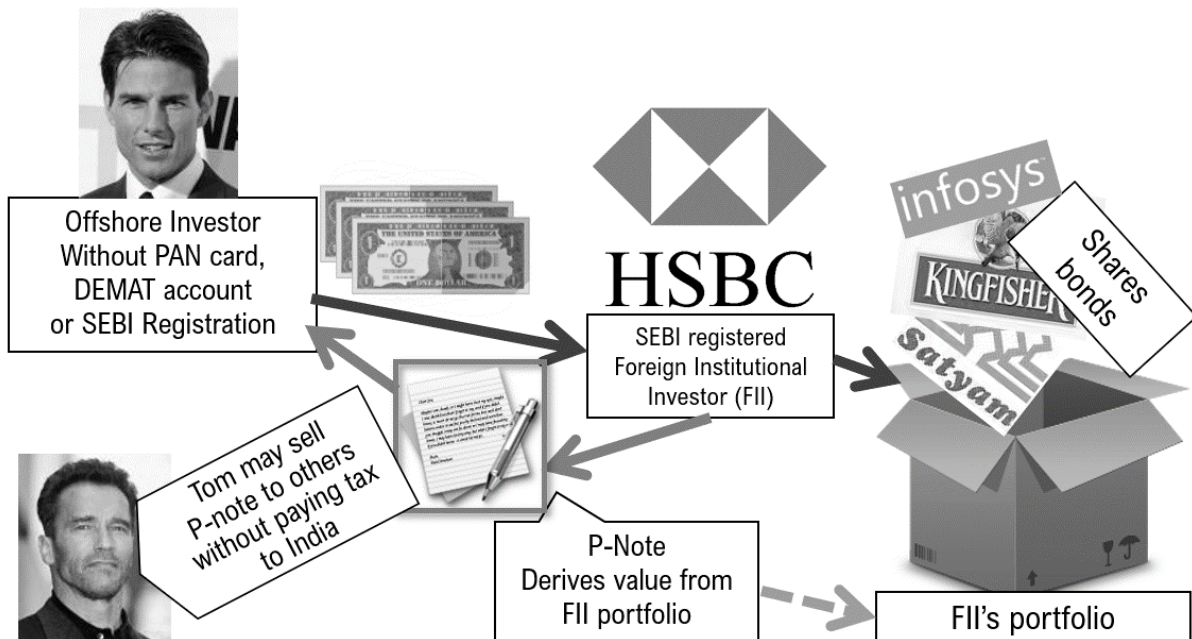


Figure 12: बिना SEBI पंजीकरण के भारतीय पूंजी बाजार में निवेश करू, तो कैसे?

- ⇒ A foreigner wishes to **invest** his money in India but does not want to go through the hassles of registering with SEBI, getting PAN card number, opening a DEMAT account etc. So, he will approach a SEBI registered foreign institutional investor (FII) / foreign portfolio investor (FPI) such as Morgan Stanley, Citigroup or Goldman Sachs. He'll pay them & instruct them to purchase particular shares and bonds and store them in their Demat account.
- ⇒ Then FII will give him P-Notes, and he'll receive interest and dividend accordingly.
- ⇒ He may also sell those P-notes to a third party. (किसी अन्य व्यक्ति को भी बेच सकता है)
- ⇒ P-Notes are **Offshore Derivative Instruments** that derive the value from the underlying Indian shares and bonds. (अपतटीय व्युत्पन्न उपकरण)

🧑🏻💻 P-Notes are harmful for Indian economy because:

- ⇒ P-note investors are not directly registered with SEBI. Identity of the actual investor, source of funds remain disguised= chances of Tax evasion, money laundering, terror finance (इसके निवेशक ने स्वयं सेबी में पंजीकरण नहीं करवाया वह पैसा किधर से लेकर आया यह सब जानकारी नहीं मिल पाती, कर चोरी, काले धन को वैध बनाना, आतंकी वित्तपोषण)
- ⇒ If P-Note owner sells his P-Notes to another foreign investor, Government of India may be **deprived of taxes**. (Compared to a scenario where Indian share owner is selling his shares to another Indian investor at profit, then government gets securities transaction tax and capital gains tax on his profit, & he can't dodge it because DEMAT accounts linked with PAN card. *More on PAN card@Pillar#2 → BlackMoney*)
- ⇒ Therefore, SEBI tightening the control P-Notes e.g. "X" category of FPIs can't issue P-Notes. "Y" category of FPI can issue P-Notes but every time they issue P-notes-they'll have to deposit \$1,000 to SEBI etc.



Table 4: Sad that even for such simple things I've to create such spoonfeeding-tables just to prevent FAQs from weak students

P-Notes	Foreign investor wants to invest in Indian share/bond market without registering with SEBI. He wants to buy Indian companies' shares/bonds in India. फिरंगी आदमी भारत की कंपनी में निवेश करना चाहता है लेकिन सेबी से पंजीकरण नहीं करवाना चाहता
Bharat-DR	Foreign Company wants to Indian to invest in its foreign/firangi-shares, without registering with SEBI. फिरंगी कंपनी अपनी कंपनी के शेयर्स भारतीयों को बेचना चाहती है लेकिन सेबी से पंजीकरण नहीं करवाना चाहती
ADR/GDR	Non-American Company wants to American people to invest in its shares without registering with American SEBI. गैर-अमेरिकी कंपनी अपनी कंपनी के शेयर अमेरिकी जनता को बेचना चाहती है लेकिन अमेरिका के शेयरबाजार नियंत्रक से पंजीकरण नहीं करवाना चाहती. GDR- similar concept, refer to respective segment.
Masala/Panda/Kangaroo Bonds etc	Foreign company/org wants to borrow money, in a particular currency from a particular country. Refer to respective segment

Q Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (Pre19-SetA Q67)

(a) Certificate of Deposit (b) Commercial Paper (c) Promissory Note (d) Participatory Note

15.21.3 Conclusion: Financial Markets- वित्तीय बाजारों के बारे में निष्कर्ष

- ✓ A well functioning financial market catalyzes the process of economic development. It is therefore essential that such markets operate in a free, fair, competitive and transparent manner. एक सुविकसित वित्तीय बाजार आर्थिक विकास की प्रक्रिया में उद्दीपक का काम करता है। ऐसे बाजार का स्वतंत्र, निष्पक्ष, प्रतिस्पर्धी और पारदर्शी रूप से संचालित होना आवश्यक है।
- ✓ Deepening the financial market helps mobilize the savings of poor households into the productive channels of the economy. पूंजी बाजार को गहरा करने से गरीब परिवारों की बचत को अर्थव्यवस्था के विभिन्न क्षेत्रों को क्रियान्वित करने में मदद मिलती है।
- ✓ Aforementioned initiatives /issues are greatly important in that regard need to be addressed in priority basis. इस संबंध में पूर्वोक्त पहल / मुद्दे बहुत महत्वपूर्ण हैं / उन्हें अग्रताक्रम से संबोधित करना आवश्यक.



Pillar 1C2: Corporate Governance

15.22 COMPANY TYPES

15.22.1 Company types based on incorporation

 Chartered Companies	Setup by a charter given by a king / queen. E.g. East India Company in 1600. (चार्टर्ड कंपनियां)
 Statutory Companies	Setup by special acts of Parliament or State legislature. E.g. RBI, LIC, SBI. (वैधानिक कंपनियां)
 Registered Companies	Registered under the Companies Act, 1956 (and later 2013) e.g. Tata Motors, Infosys. (पंजीकृत कंपनियां)

15.22.2 Company types based on number of members

	Private ltd.	Public Limited Company (Companies Act 2013)
Members	Min. 2 to Max. 200	Min. 7 to Max. unlimited number (depending on how many shares issued & purchased by the people)
can they invite public at large, to buy shares /bonds? क्या सामान्य जनता को विज्ञापन देकर अपने शेयर-बांड बेच सकते हैं?	Can't	⇒ A public ltd. company can invite public at large, to subscribe to its shares and bonds. ⇒ If their shares are listed on a stock exchange (BSE, NSE etc), it's a 'Listed Public Limited Company' (e.g. Reliance), else it's an 'Unlisted Public Limited Company' (e.g. India Post Payment Bank : IPPB)
Min. authorized capital	₹ x	₹ x (अधिकृत पूंजी). It's the maximum amount of shares the company can issue.
Min. Paid up Capital requirement	N/A*	- N/A* (देय पूंजी). The amount of money a company has actually received from the selling of shares. - *[earlier, Companies Act required companies to have minimum paid up capital of ₹1L (pvt ltd) and minimum ₹5L(public ltd) but after 2015's amendment, this requirement removed so "Not applicable".]
Directors (Min-Max)	2-15	⇒ Min 3 to Max 15. out of them one must be Indian Resident, 1 must be Woman and 1/3 rd of the directors must be independent directors. ⇒ Independent directors are persons without any pecuniary interest in company, they are supposed to protect minority shareholders' interests. (अल्पसंख्यक शेयरधारकों के हितों की रक्षा करने के लिए स्वतंत्र डायरेक्टर)
Term limit	N/A	Their directors have age limit, term limit.



	Private ltd.	Public Limited Company (Companies Act 2013)
Corporate Governance Norms	Norms either not applicable or relaxed. UPSC-CSE≠CA	Companies Act requires them ⇒ to hold specific number of annual meetings of board of directors, norms for quorum, mechanism for e-voting, ⇒ have to appoint Company Secretary, ⇒ Implement mechanism for protecting whistleblowers And so on...

FAQ: How can pvt limited company have shareholding?

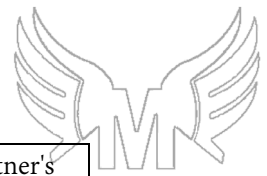
- Ans. They can ask friends and family, venture capital funds, angel investors and other type of investors to invest in the company. They cannot put an advertisement in the newspaper that we are inviting the public at large to buy our shares. IF they want to invite public at large, → they need to convert registration from private limited company to public limited company.
- Companies usually start as originally as private limited companies. e.g. Infosys (private ltd) in early 80s → when their business grows and they want more capital they will convert into public limited companies. → they will issue shares for the first time for the public at large → so we call it **Initial Public Offer (IPO)** e.g. same infosys (public ltd) in early 90s launched IPO..
- In future same public limited company may also require more capital so again they will issue more shares for the the second time, third time etc. → then we call it **Follow on Public Offer (FPO)**

15.22.3 Company types based on Ownership

 Government / Public Sector / सार्वजनिक क्षेत्र की	 Private Sector / निजी क्षेत्र की
When Government owns 51%/> shares. Examples: Steel Authority of India (SAIL), India Post Payment Bank (IPPB)	When private parties own 51%>. E.g. Reliance, Tata, Adani
Holding Company / नियंत्रक कंपनी A company that owns majority shares in another company. E.g. Tata Sons Ltd. holds majority shares of Tata Consultancy Services (TSC), Tata Steel, Tata Sky etc.	Subsidiary Company / नियंत्रित कंपनी A company that is controlled by a parent holding company. E.g TCS, Tata Steel, Tata Sky are subsidiary co of Tata Sons.

15.22.4 Company Types: Misc.

Under Companies Act	⇒ One Person Company: special type of private ltd company having only one member.  Budget-2021: One Person Companies (OPCs)- Legal reforms in Companies Act to [1] allow NRIs to easily register OPC in India [2] OPC can be converted to other types of companies any time ⇒ Not for Profit Company: e.g. GSTN, NPCi etc. their profit is re-invested in business expansion. They get certain tax benefits & relief in how frequently they've to submit data to MCA. (लाभ-रहित कंपनी, जो कंपनी मुनाफे के लिए नहीं बनाई गई) ⇒ Dormant Companies: A) setup to start business in future B) setup to store intellectual property C) not filled annual returns for two consecutive years. (निष्क्रिय/सुप्त कंपनी)
 Under LLP Act 2008	⇒ Limited Liability Partnership (LLP) Company is formed by minimum 2 or more partners.



सीमित देयता भागीदारी अधिनियम	⇒ Individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct. E.g. Vajiram and Ravi IAS Study Centre LLP ⇒ LLP's registration fees, auditing/reporting norms, tax liabilities, winding up process etc. are more flexible than a (public or pvt) ltd. company registered under Companies Act. उनके लिए नियमों में रियायत/आसानी होती है।
Under Indian Partnership Act 1932	⇒ A Partnership firm is formed by minimum 2 or more partners. ⇒ Each partner is liable jointly with all the other partners for losses, wrongful biz. decisions and misconduct.

15.22.5 Corporate Governance → Small Companies given compliance relief

- ⇒ Budget-2021: Companies with paid up capital not more than ₹2cr & annual turnover not more than ₹20cr = treated as 'Small Companies'. [Previously, definition of Small Company was more stricter]
- ⇒ They'll be given relief in Companies Act related compliance e.g. how frequently they've to submit accounts and ownership related documents to the Ministry of Corporate Affairs etc.

15.22.6 Commercial Organizations: Other Types

PSU, CPSE	Ref: Pillar2: Disinvestment
MSME	Ref: Pillar1D: financial inclusion, Pillar4B
Startups	Ref: Pillar4B

15.22.7 1C: Corporate Governance → LLP settlement Scheme 2020

सरकार में कुछ दस्तावेज जमा कराने होते हैं. अगर नहीं कराए तो इतना दंड भरकर मामला सुलझा लेते हैं / मुकदमा दर्ज नहीं करेंगे

- ⇒ Limited Liability Partnership (LLP) companies are required to submit accounts and ownership related documents to the Ministry of Corporate Affairs.
- ⇒ But many of them did not submit the documents on the deadline → Govt ordered them to pay late fees/penalties, threatened them with prosecuting cases under the LLP Act and cancelling their registration.
- ⇒ LLP settlement Scheme, 2020: "If you submit the required documents between x to y date → Then you will have to pay less penalty and we will give you immunity from prosecution.", said the Government.
- ⇒ Budget-2021: we'll amend LLP Act for further ease of doing biz.

15.23 STATUTORY BODIES IN MINISTRY OF CORPORATE AFFAIRS (MCA)

15.23.1 Competition Commission of India (भारतीय प्रतिस्पर्धा आयोग)

- ⇒ Competition among companies= consumer gets goods and services at the most competitive / affordable prices. कंपनियों के बीच स्पर्धा होगी तभी तो ग्राहक को अच्छी सेवा और किफायती दाम में चीजे मिलेंगी
- ⇒ Therefore, government must prevent cartelization (price fixing or production fixing by a group of Companies), prevent monopoly (single company commanding the production / supply), protect consumers' interests and ensure freedom of trade.
- ⇒ 1970: Monopolies and Restrictive Trade Practices (MRTP) Act.
- ⇒ Later MRTP Act replaced with Competition Act, 2002- which has a statutory regulator Competition Commission of India (CCI: 1 Chairman + 6 Members)
- ⇒ In past, CCI has imposed penalties on cement companies, real estate companies. It is also investigating Airtel, and other telecom companies for alleged cartelization.



15.23.2 Insolvency and Bankruptcy Board of India (IBBI)

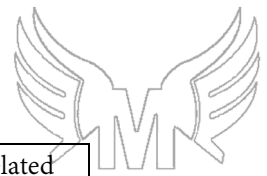
This too is a statutory body under the Ministry of Corporate Affairs (MCA). Read previous Pillar#1B-2: NPA-handout for more on IBC Code.

Table 5: Bodies under Companies Act 2013

Features	National Company Law Tribunal (NCLT)	National Financial Reporting Authority (NFRA)	Investor Education & Protection Fund	Serious Fraud Investigation Office (SFIO)
	राष्ट्रीय कम्पनी विधि अधिकरण	राष्ट्रीय वित्तीय प्रतिवेदन प्राधिकरण	निवेशक एवं शिक्षा रक्षण कोष	गंभीर धोखाधड़ी अन्वेषण कार्यालय
Members	Judicial + technical. They've benches @Delhi, Kolkata, Jaipur etc.	Chairman + 3 full time + 9 part time. 3 yr/65, 1-time reappointment.	Boss: Corp. Affairs Secretary (IAS). Plus, members from RBI, SEBI, financial experts	Civil servants & financial experts
Appeal	NCLAT (Appellate tribunal)	NFRAA (Appellate Authority)	Regular Courts	Regular Courts
Cases	Hear the cases related to Companies Act, Board room battles, Merger-Acquisition, Corporate Insolvency & Bankruptcy (I&B)	Sets standards for Auditors & (CA), in listed companies and large unlisted companies. If malpractices-> investigate and debar them, Powers of civil court.	They use unclaimed money from shares/bonds for financial literacy and awareness	Investigate white-collar (financial) frauds. Powers to search, seize, arrest. Once SFIO gets case, other agencies (like CBI) can't proceed.

15.23.3 Ministry of Corporate Affairs also associated with:

Chartered Accountants Act 1949	Regulates the CA profession through a Statutory body: Institute of Chartered Accountants of India (ICAI). ICAI also has IPA status under I&B Code.
Company Secretaries Act, 1980	Statutory Body: Institute of Company Secretaries of India (ICSI). Also has IPA status.
Cost and Works Accountants Act, 1959	Statutory Body: Institute of Cost Accountants of India (ICAI). Also has IPA status.
Legislative Responsibilities of MCA	⇒ 1860: Societies Registration Act- for registration of literary, scientific and charitable societies. E.g. Sahitya Akademi, National School of Drama etc. जो मुनाफे के लिए नहीं लेकिन कला साहित्य विज्ञान के प्रसार के लिए बने ⇒ 1932: Partnership Act ⇒ Companies Act 1956 → 2013. ⇒ 2008: Limited Liability Partnership Act
E-governance initiatives of MCA	⇒ INC-29 online form to registration of new company. Later it was replaced with Simplified Proforma for Incorporating Companies (SPICe) online form.



	⇒ MCA-21 portal, where companies can file online documents related to Companies Act compliance. MCA21 Version 3.0= this latest Version 3.0 portal will have additional modules for e-scrutiny, e-Adjudication, e-Consultation and Compliance Management.
Officers	Indian Corporate Law service (ICLS) via UPSC CSE-exam

15.24 **CORPORATE GOVERNANCE (कॉर्पोरेट शासन)**



Figure 13: तुम मेरे पापा के दोस्त हो? - Cyrus Mistry

It is a way of directing the company to protect the interest of all stakeholders, and ensure three types of compliance: (कंपनी निर्देशित करने का एक तरीका जिससे हितधारकों की रक्षा हो)

Compliance	Example(s)
Legal-Regulatory कानूनी-नियामक	⇒ Company obtaining Legal Entity Identifier (LEI) number as mandated by RBI. ⇒ Company setting up 'Internal Complaints Committee' as mandated by Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 / "POSH Act"
Technical तकनीकी	⇒ Companies keeping balance sheets as per the Ind-AS accounting standards. ⇒ Automobile company producing car engines as per BHARAT-Stage emission norms.
Moral-Ethical नैतिक-सदाचार-पूर्ण	Gillette scrapping the ad-contract with cricketer Hardik Pandya for his sexist comments against women on Koffee with Karan Show.

- ⇒ Absence of Corporate Governance leads to fraud, embezzlement (ग़बन), erosion of investors' confidence. E.g. **Satyam** Computer Scandal (Chairman Ramalinga Raju manipulated account books), Boardroom battles at Tata Group (Cyrus Mistry vs Ratan Tata) and **Infosys** Group (Narayana Murthy vs Vishal Sikka fighting, 2019: whistle-blower complaint about financial irregularities), **ICICI** (Boss Chanda Kochhar gave ₹3000 crore loan to Videocon company without due-diligence, which turned NPA.)
- ⇒ Therefore, Companies Act 2013 mandates companies to impose term limits on directors, appoint independent directors, one person can't become director in more than "X" number of companies, one CA can't audit more than "Y" number of companies, Company has to setup whistle-blower protection (व्हिसलब्लोअर सुरक्षा) mechanism, Company can't give loan to its directors and so forth.
- ⇒ An auditor is authorised personnel that verifies the accuracy of financial records. Their primary objective is to protect businesses from fraud. Companies Act → **Companies Auditor's Report Order (CARO)** = Auditors have to annually submit reports to the Ministry of Corporate Affairs (MCA).
- ⇒ Companies Act also has provisions for **Related Party Transactions (RPT)** to avoid scam/embezzlement. (More in  Pillar#4: Ease of Doing Biz)



15.24.1 🧑🧑 Corporate Governance: notable Committees

- ⇒ Notable committees for improving corporate governance in India: Kumar Mangalam Birla (1999), Narayana Murthy (2003), Adi Godrej (2012), Uday Kotak (2017).
- ⇒ Further, SEBI too can issue directives to Public Limited Companies in the interest of investors, beyond what is required under Companies Act. Such as...

Table 6: 📖 not imp to memorize all provision. just observe pattern

SEBI implemented Uday Kotak committee's suggestions	From 2019-Apr	From 2020-Apr
Split CEO/MD and Chairman. One person can't occupy both positions in his company (e.g. Gautam Adani)	N/A	Top 500 listed cos.
Companies Act requires min.3 directors in Public Listed company, but SEBI mandated to have min. 6 directors	Top-1000 listed cos	Top-2000 listed cos
Companies Act doesn't prescribe gender of independent director but SEBI mandated atleast one independent woman director.	Top 500 listed cos.	Top 1,000 listed cos.
one person can serve as director in how many companies? (Companies Act: Max.10), but SEBI required	8	7

- ⇒ SEBI also tightened norms related to salaries to directors, 'related party transactions' (meaning not important but the fact that term associated with corporate governance / companies act).
- ⇒ 🧠 ATMANI = SEBI deferred many of above guidelines. Dynamically changing info so we need not chase it @ball-by-ball commentary.

15.24.2 💰 (🏢 📄) CSR: Corporate Social Responsibility (कॉर्पोरेट सामाजिक जिम्मेदारी)

कंपनी ने अपने मुनाफे का कुछ हिस्सा समाज कल्याण में लगाना होगा

- ⇒ Mandated under Companies Act 2013: Last 3 years' avg. profit → spend 2% of that on CSR (education, environment, public health, sanitation, disaster management etc.)
- ⇒ Applicable on both public ltd and private ltd. with very huge profit / turnover / network (🏠 🧠 what's the difference between these terms, what's the exact figure? Ans. UPSC is not Chartered Account exam.)
- ⇒ Ministry of Corporate Affairs (MCA) gives National CSR Awards to companies.

15.24.3 🧑🧑 🏢 📄 ATMANI: Corporate Governance → Companies Act relaxed

बहुत सारे अपराधों में अब जेल नहीं होगी केवल जुर्माना, और जुर्माने की रकम भी कम की गयी

- ⇒ Companies Act requires the companies to hold Meeting of the board of directors, and meeting of the shareholders every "x" number of days etc. This norm is relaxed due to corona lockdown. Guidelines also provided for e-voting and video conferencing.
- ⇒ Companies (Amendment) Bill, 2020 → Many offences under Companies Act have been decriminalized i.e. villains can settle by paying fines, & he'll not face arrest/jail.
 - E.g. if Corporate social responsibility reports not submitted to Government on time, delay in holding Annual General Meeting of the shareholders etc.
- ⇒ 📌 Fines/penalties for Small Companies, One person Companies, Start Ups and Producer Companies*.
 - *A Producer Company (PC) is a registered company by a group of farmers/ agriculturists. We will learn in 📖 pillar4A: Farmer Producer Company (FPC)

15.24.4 📌 Conclusion: Corporate Governance- निष्कर्ष

- ⇒ A healthy corporate sector plays an important role in creating jobs, improving exports, and boosting GDP



growth rate. एक स्वस्थ कॉर्पोरेट क्षेत्र रोजगार-निर्माण/सृजन, निर्यात और जीडीपी विकास दर को बढ़ाने में महत्वपूर्ण भूमिका निभाता है।

- ⇒ But, lack of corporate governance erodes investors confidence and prevents deepening of the financial market. Thereby it harms economic growth of a country. लेकिन, कॉर्पोरेट शासन की कमी/ धांधली- निवेशकों के विश्वास को खत्म करती है, और वित्तीय बाजार को गहरा करने से रोकती है। जिससे देश की आर्थिक वृद्धि को नुकसान पहुँचाता है।
- ⇒ Aforementioned initiatives /issues are greatly important in that regard need to be addressed in priority basis. इस संबंध में पूर्वोक्त पहल / मुद्दे बहुत महत्वपूर्ण हैं / उन्हें अग्रताक्रम से संबोधित करना आवश्यक.

15.24.5 Mock Questions for Mains (GSM3/250 Words Each)

- 1) (GSM2-2015) In the light of the Satyam Scandal (2009), discuss the changes brought in corporate governance to ensure transparency, accountability. सत्यम स्कैंडल (2009) पश्चात पारदर्शिता, जवाबदेही सुनिश्चित करने के लिए कॉर्पोरेट प्रशासन में लाए गए बदलावों पर चर्चा करें।
- 2) (GSM3-2015) Craze for gold in Indians have led to a surge in import of gold in recent years and put pressure on balance of payments and external value of rupee. In view of this, examine the merits of Sovereign Gold Bond Scheme and Inflation Indexed Bonds (IIB). भारतीयों में सोने के लिए सनक के चलते हाल के वर्षों में सोने के आयात में वृद्धि और भुगतान के संतुलन और रुपये के बाहरी मूल्य पर दबाव बढ़ा है। इसे देखते हुए, संप्रभु स्वर्ण बॉन्ड स्कीम और मुद्रास्फीति सूचकांकित बांड की खूबियों की जांच करें। संतुलन और रुपये के बाहरी मूल्य पर दबाव डाला है। इसे देखते हुए, संप्रभु स्वर्ण बॉन्ड स्कीम और मुद्रास्फीति सूचकांकित बांड की खूबियों की जांच करें।
- 3) "Just as good governance is necessary for vibrant Indian democracy, corporate governance is necessary for vibrant Indian economy." elaborate. "जिस प्रकार जीवंत भारतीय लोकतंत्र के लिए सुशासन आवश्यक है, उसी प्रकार जीवंत भारतीय अर्थव्यवस्था के लिए कॉर्पोरेट शासन आवश्यक है।" विस्तृत कीजिए।
- 4) Discuss the significance of deepening the capital market to resolve the Twin Balance sheet Syndrome (TBS) in Indian Economy. भारतीय अर्थव्यवस्था में दोहरे तुलन पत्र की चुनौती को हल करने के लिए पूंजी बाजार को गहरा करने के महत्व पर चर्चा करें।
- 5) Why are Indian financial regulators apprehensive about (1) P-Notes (2) Cryptocurrencies? भारतीय वित्तीय नियामक (1) पी-नोट्स (2) क्रिप्टोकॉइन्स से आशंकित क्यों हैं?

 Next Handout: 1D: Insurance, Pension, Financial Inclusion



1D: Insurance, Pension & Financial Inclusion

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16 INSURANCE (बीमा): MEANING AND SIGNIFICANCE

- Meaning: insurance policy is a Debt instrument / Legal contract against eventualities of death or damage. (मृत्यु या क्षति की घटनाओं के खिलाफ कानूनी अनुबंध).
- 2 parties in this contract: 1) Insured / client 2) Insurer / Underwriter.
- Insurance provide stability to the households (against death, disability, damage) and entrepreneurs (against fire, theft, natural disasters etc.) बीमा परिवार और उद्योगपतियों को जोखिमों के सामने स्थिरता मुहैया कराता है
- Insurance companies invest clients' premium in various public and private sector projects, thereby channelizing savings towards investment & economic growth. बीमा-किस्त के द्वारा लोगों की बचत निवेश में जाती है

16.11.1 Insurance Principles (सिद्धान्त: hindi not required but understand gist for case studies)

- ⇒ **Uberrima fides**- Good faith, hide nothing. (HIV+ve in Health Insurance)
- ⇒ **Indemnity**- Only “REAL” loss, not imaginary. (couldn't give CAT exam due to fire)
- ⇒ **Subrogation**- Insurer can recover from negligent 3rd party.
- ⇒ **Causa Proxima** - Direct loss link. Bollywood fan can't buy policy for Bachchan.
- ⇒ **Insurable interest**- If “risk-x” not happen, client remains in same position, “risk-x” happens client in bad position. (I didn't win lottery, I lost in horse race betting)

16.12 HISTORY OF INSURANCE IN INDIA (भारत में बीमा कं. का इतिहास)

- (1818): Europeans started insurance companies in India, but they charged higher premium on Indian clients with racist bias that Indians belong to an inferior race = higher probability to die. अंग्रेज कंपनियां भारतीय लोगों पर ज्यादा बीमा किस्त मांगते थे
- (1870): Bombay Mutual Life Insurance was the first Swadeshi life insurance company and they did not charge extra premium on Indian clients.
- (1912): Life Insurance Companies Act to regulate them, but the norms were lax, so just like the banking industry, the insurance industry too faced problems in the aftermath of Great Depression in USA. So, 1938: Insurance Act for tougher regulation.
- Just like the banking industry, the insurance industry had to be nationalized after independence due to scams, financial inclusion and Five-Year Plans. धांधली, वित्तीय समावेशन और पंचवर्षीय योजना के लिए राष्ट्रीयकरण

Chronology	 Bank	 Insurance
1948-49	RBI nationalized	-----
1955	SBI nationalized	-----
1956	----	LIC Act took over ~245 (private owned) Life insurance companies.
1969	Nationalization of 14 Private Banks	----
1972	----	GIC Act: GIC and its 4 subsidiaries tookover ~107 (private owned) General insurance companies.
1980	Nationalization of 6 Private Banks	----
Reforms सुधार समिति	Narasimham '91 & '98	Malhotra Committee 1993 → Private insurance companies were allowed, FDI was liberalized



Chronology	Bank	Insurance
Safeguards सुरक्षा के लिए कुछ मानदंड	CRR, SLR, BASEL	Investment Pattern, Solvency Margin. E.g. They must invest minimum “x%” of premium in G-Sec, they can’t invest more than “y%” of premium in pvt companies shares/debentures etc. They must not invest in companies having less than “AA” credit rating etc. ~~Exact norms not imp.~~
Financial Inclusion, Welfarism	PSL norms 25% branches in unbanked rural areas	Rural & Social Obligation Norms: every year “x” number of policies must be sold in rural areas, PH/backward etc. Further Insurance companies required to invest minimum “x%” in affordable housing projects, State Govt’s fire equipment etc. Else IRDAI imposes penalty. ग्रामीण और सामाजिक दायित्व मानदंड
Delivery Channel	⇒ Bank branch, ⇒ Business Correspondence Agent (BankMitra)	Insurance Intermediaries: (मध्यस्थ/ बिचौलिया) - Agents/brokers. - Bankers selling insurance (Bancassurance) - Surveyor/Loss Assessor (सर्वेक्षक). - Third Party Administrators (e.g. Hospital where treatment is given for health insurance जहाँ आप का इलाज हो)

16.13 LIFE INSURANCE (जीवन बीमा)

Life Insurance Type → Money returned?	At maturity	At death
Whole life = Longer policy: (e.g. 35-40 yrs) Endowment = Shorter policy: (e.g. 10-20)	Yes, savings returned with interest	YES
Term life = Short Policy, Low Premium e.g. PM Jeevan Jyoti Bima Yojana. मृत्यु नहीं हुई तो बीमा किस्त वापस नहीं मिलेगी	No	Yes
ULIP: Unit Linked Insurance Plans: Part of money goes in insurance, part in Mutual fund	Yes, savings returned with some profit	YES

16.13.1 Life Insurance → notable entities in public sector (सार्वजनिक क्षेत्र के जीवन बीमा संस्थान)

16.13.1.1 Post Office Life Insurance



- Initially started as postal life insurance for postal employees (1884), later extended to rural people as well.
- Presently, 6 schemes for govt employees and 6 schemes for rural areas (usually with prefix of “GRAM” e.g. gram Suvidha / Suraksha / Santosh....)

👤👤👤👤 **Sampoorna Bima Gram Yojana (2017)**

- ⇒ by Ministry of Communications (संचार मंत्रालय)
- ⇒ In every district, atleast 1 village identified → In that village, cover all households with a minimum of one RPLI (Rural Postal Life Insurance) policy.
- ⇒ All villages under the **Saansad Adarsh Gram Yojana** will also be covered. (REF: 📖 More in pillar#5 handout → infrastructure → rural infrastructure).



16.13.2 📄💀🏠👤 Life Insurance Corporation of India (1956)



- ⇒ To take over/nationalize the private life insurance companies → LIC Act, 1956. So, LIC is a **statutory corporation/statutory company**. (वैधानिक निगम)
- ⇒ Rigveda: “योगक्षेम” (Yogakshema: well being) = name of LIC HQ@Mumbai & its corporate magazine.
- ⇒ Gita: “योगक्षेमं वहाम्यहम्” (Yogakshemam Vahamyaham:- I ensure safety and well being (of my devotees) = LIC motto.
- ⇒ 2018: became majority shareholder in IDBI bank. 2019-March: RBI classifies IDBI as a ‘private sector’ bank. (Ref: 📄 Pillar#1B1: classification)

16.13.3 📄💀🏠👤 LIC’s Disinvestment (2020, विनिवेश)

- 📅 Budget-2020: LIC Act will be amended → LIC will be converted from a statutory corporation into a (listed) Public Limited Company → Initial Public Offering (IPO) → Government will sell part of its shareholding. 📅 Budget-2021: again repeated the same thing.

WHY is Govt doing disinvestment of LIC?

- ⇒ LIC’s insurance products come with a sovereign guarantee (संप्रभु गारंटी) by the Govt. So people prefer to buy it over private sector insurance policies. This hampers perfect competition (पूर्ण प्रतियोगिता).
- ⇒ If Govt shareholding [1] → LIC functioning becomes independent → less financial repression of households e.g. how LIC bought loss making IDBI under Government’s pressure. Ref 📄 Pillar#1B-1: Banks’ classification. (सरकारी दबाव में, एलआईसी घाटे वाले क्षेत्रों में निवेश करता है, जिससे निवेशकों का वित्तीय दमन)
- ⇒ So, earlier, International Monetary Fund (IMF, 2018) and Justice B.N.SriKrishna’s Financial Sector Legislative Reforms Commission (FSLRC-2011) had also advised the same to Government of India. (वित्तीय क्षेत्र विधायी सुधार आयोग में भी कुछ ऐसी ही सिफारिशें की थी)
- ⇒ Disinvestment = Government will earn some ₹ by selling its shares → welfare schemes. (विनिवेश से कमाई रकम, गरीब कल्याण योजनाओं में इस्तेमाल कर सकती है)

16.13.4 📄💀🏠👤 LIC- Aam Admi Bima Yojana (AABY):

👤 OLD SCHEME DONT LOOSE SLEEP

- ⇒ 18-59 aged Below Poverty Line (BPL: गरीबी रेखा के नीचे) and marginally above poverty line people.
- ⇒ **Premium?** Rs.200 per year. (out of that Rs. 100 by Union Govt. remaining Rs.100 by either State Govt / non-governmental organization (NGO). प्रीमियम की कुछ रकम केंद्र सरकार देती बाकी कि राज्य सरकार या समाजसेवी संस्थाएं)
- ⇒ **Payment?** Children scholarship** and ₹30-75k depending on natural death accidental death / disability.
- ⇒ **Previously** Janshree Bima Yojana –Unorganized workers group insurance but merged with AABY (2012).
- ⇒ Administrative control of this AABY scheme? Labour Ministry (श्रम मंत्रालय इसकी प्रशासनिक जिम्मेदारी देखता है)

16.13.5 📄💀🏠👤 PM schemes for Life Insurance & Accidental (Gen) insurance



Figure 1: शराब पी के मर गए देवदास बाबू तो PM-सुरक्षा बीमा योजना में कुछ नहीं मिलेगा!



Table 1: 2015: Finance Ministry → Dept of Financial Services launched these two schemes.

Features	 Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)	 Pradhan Mantri Suraksha Bima Yojana (PMSBY)
Age	18-50 years with bank account in India. NRIs eligible but payment in rupee currency only.	18-70 years. Remaining same as PMJJBY
Purchase from	LIC or any empaneled pvt. life insurance company.	4 Public Sector, or any empaneled pvt. General Insurance company.
Premium	Rs. 330 per person/ annum	Rs.12/- per person/ annum
Type	LIFE Insurance	General Insurance
Nature of Plan	1 year “term” LIFE insurance. Term LIFE insurance = no death, no money returned.	1-year “term” accident cum death insurance.
Return?	Any type of death: ₹ 2 lakhs किसी भी प्रकार की मृत्यु पर परिवार को मुआवजा मिलेगा	Accidental Death: murder, natural disaster etc. ₹2 lakhs - Loss 1 eye/hand/leg: 1 lakh - Loss 2 organs/>: max. 2 lakhs Suicide, alcohol-drugs related death: not eligible

Neither scheme gives hospitalization cost. (अस्पताल में चिकित्सा खर्च के बिल की अलग से कोई राशि नहीं मिलेगी)

16.14 GENERAL INSURANCE (सामान्य बीमा)

An insurance policy other than ‘life insurance’, is called General Insurance. e.g. Accident Insurance, Health Insurance, Crop Insurance, Fire-Theft-Marine & Vehicle Insurance. दुर्घटना बीमा, स्वास्थ्य बीमा, फसल बीमा, आग-चोरी-समुद्री और वाहन बीमा

16.14.1 Public Sector General Insurance Entities: Timeline (समय रेखा)

- ⇒ **1948:** Employees' State Insurance Corporation (ESIC) under Labour Ministry – through an act of Parliament to protect selected category of workers. मजदूरों का स्वास्थ्य बीमा
- ⇒ **1957:** Export Credit Guarantee Corporation of India (ECGC: निर्यात ऋण गारंटी निगम) under Commerce Ministry. Gives insurance cover to exporters, and credit guarantee to Bank/NBFC who loan to exporters.
- ⇒ **1961:** DICGC Act: banks must buy deposit insurance from it. Although not considered a General Insurance Company in textbook sense because doesn't directly sell insurance policy to any individual household/businessman. (पाठ्यपुस्तक की परिभाषा में उसको बीमा कंपनी नहीं बोल सकते)
- ⇒ **1972:** General Insurance Nationalization Act: 107 (private) general insurance companies were taken over by GIC and its 4 subsidiaries (viz. National insurance, New India Assurance, United India, Oriental). Later, Govt took direct shareholding-control over these 4 subsidiaries, and left GIC to take care of re-insurance biz. (पुनःबीमा)
- ⇒ **2002:** Agriculture Insurance Company Ltd, (formed with funding of GIC, above 4 public sector Gen. Insurance Cos and NABARD.) कृषि बीमा कंपनी
- ⇒ **2018-Feb:** Budget announced to **merge (विलीनीकरण)** National Insurance Company, United India Insurance Company and Oriental India Insurance Company- but the plan has not materialized yet.



⇒ **2018-Oct:** FinMin → Dept of Financial services organized ‘**Insurance Manthan**’ for Public Sector GI @Delhi. **Outcome?** six-point agenda: fully insured society, customer orientation, digital -analytics for future, sustainable-prudent business, reach for everyone and talent management. 🖱️ How? NotIMP.

⇒ 🕒📅📊📈🖱️ 2020: 1) IRDAI allows insurers to give three-month moratorium on loans. 2) Union Cabinet has approved the capital infusion of Rs.12,450 crore in the three Public Sector General Insurance Companies to improve their financial solvency. ~~THIS TYPE OF Technical NEWS IS NOTIMP for the scope of the exam. DONT WASTE TIME. #📺 थोड़ा पढ़ो आगे बढ़ो~~

16.14.2 🏢🔧👤) Employees' State Insurance Corporation

- **1948:** Employees' State Insurance Act → 1952: ESIC corporation (ESIC) setup under Labour Ministry. (कर्मचारी राज्य बीमा निगम, श्रम मंत्रालय)

ESIC applicability?	BEFORE	🏠 ATMANIRBHAR Reform (2020)
any establishment with 10/> employees	Compulsory	Compulsory (अनिवार्य)
If establishment less than 10 workers → but it's a hazardous industry e.g. (firecrackers, toxic chemicals, acid)	Voluntary (स्वैच्छिक/वैकल्पिक)	Compulsory (खतरनाक उद्योगों के मजदूरों का क-रा-बी-नि में पंजीकरण अनिवार्य)
If establishment less than 10 workers → Non-hazardous industries	Voluntary	Voluntary

- 🧑 **Who are ESIC subscribers?** Employee in above establishment, with monthly salary less than ₹21,000/-
- 🧑 **Who pays ESIC premium?** “x%” of employee’s wages+ “y%” from employer’s side.
- ~~What is X and Y? notimp unless preparing for ESIC/Insurance Exams. Similarly, factoids like ESIC vision-2022 to enrol 100 million workers. notIMP4UPSC~~
- 📅 Budget-2021: we’ll expand this to cover more workers. But exact details yet to be disclosed.

🏠 An ESIC subscriber gets following benefits:

- 1) Medical insurance for the worker and his family from day#1 of joining (स्वास्थ्य बीमा)
- 2) Maternity Benefit to women employees (मातृत्व लाभ)
- 3) Monthly payment to family, if worker dies by employment related injuries.
- 4) Sickness benefit: partial wages during medical leave. (बीमारी प्रसुविधा)
- 5) Monthly payment on disability (विकलांगता मासिक भुगतान)
- 6) Unemployment allowance if involuntary loss of employment- through the scheme ‘Atal Bimit Vyakti Kalyan Yojna’. (अनैच्छिक रूप से उसकी नौकरी चली गई तो बेरोजगारी भत्ता)

🏠 Project Panchdeep	digitization and automation of ESIC processes by WIPRO (2017)
📧 Project Arrow	Modernization of India Post (2008) डाक विभाग का आधुनिकीकरण

📅🔍 Consider the following: [Asked in UPSC-Pre-2012]

- 1) Hotels and restaurants
- 2) Motor transport undertakings
- 3) Newspaper establishments
- 4) Private medical institutions

The employees of which of the above can have coverage under ESIC?

- (a) 1, 2 and 3 only (b) 4 only (c) 1, 3 and 4 only (d) 1, 2, 3 and 4



16.14.3 🧐🧐🧐 Gen Insurance → Corona Warrior ₹50 lakh cover (2020-March)



⇒ 🧐 ATMANIRBHAR → PM Garib Kalyan → ₹50 lakh accident insurance scheme cover for health workers involved in managing the Coronavirus such as doctors, nurses, paramedical staff, ASHA workers etc.

- If corona illness death / corona duty related accidental death (like **mob lynching & stone pelting**) = family gets ₹50 lakhs.
- If corona led illness but recovered AND NOT DIED = no ₹ given to anyone. (bcoz presumed that health worker will get free treatment in Government hospital)

⇒ Age limit? None. (आयु मर्यादा)

⇒ **Company?** New India Assurance, a public sector general insurance company.

⇒ **Who pays premium?** Ministry of Health and Family welfare

⇒ **Duration?** Upto 2020-September then Government extended it for another 6 months. (Although govt may extend it longer, dynamically changing information. 🧐 Don't loose sleep)

16.15 🧐 GEN → HEALTH INSURANCE SCHEMES (स्वास्थ्य बीमा योजनाएं)

Fixed Benefit (निश्चित लाभ)	Indemnity Based (क्षतिपूर्ति आधारित)
Fixed payment given depending on illness. ⇒ If the Policy agreement said "if you get cancer, we'll give you ₹50 lakhs." ⇒ So, even if a patient spends ₹10 lakh on hospitalization, still the company will pay ₹50L. इससे कोई फर्क नहीं पड़ता कि हॉस्पिटल का बिल कितना आया आपको एक निश्चित रकम दी जाएगी	Upto to the "actual hospitalization cost" from the total insured sum. ⇒ "Indemnity" = upto actual cost in treatment, subject to max limit. so, if ₹5 lakh ki policy= ⇒ Actual treatment cost ₹2 lakh → company pays only ₹2 lakh ⇒ Actual treatment cost ₹7 lakh → company pays max ₹5 lakh <u>Further Subtypes</u> ⇒ Cashless policy: patient simply goes to an empanelled hospital = free treatment. ⇒ Non-Cashless policy: patient first pays hospital bill from own pocket → submits bills to insurance company → gets refund.

16.15.1 🧐🧐🧐 Arogya Sanjeevani Policy (2020)



Figure 2: पोलिसी खरीद तो कौन सी, Features की तुलना करना है बहुत मुश्किल! 🧐

🧐 Too many types of health insurance policies with various features and premiums = a common man gets confused which health policy is best for him. (आम आदमी भ्रमित हो जाता है कि कौन सी स्वास्थ्य बीमा पॉलिसी उसके लिए सर्वोत्तम)



So, IRDAI ordered health insurance companies to launch a Standard Health Insurance Product (SHIP: आदर्श स्वास्थ्य बीमा उत्पाद) to cover the basic health insurance requirements of every person. With following Features:

Name	must be "Arogya Sanjeevani Policy -<name of the company>". Any other name NOT allowed.
Type	Indemnity based Health insurance policy. (क्षतिपूर्ति आधारित स्वास्थ्य बीमा)
Premium	Decided by individual insurance company. (बीमा किस्त)
Benefit?	✓ Minimum ₹50k to maximum any amount in multiple of 50k e.g. e.g.1l,1.5l... ✓ However higher cover = higher premium/subscription fees
Validity	minimum 1 year to lifetime (वैधता)
Entry age	✓ Minimum 18 to Maximum 65. (प्रवेश आयु) ✓ Policy can for (A) self and/or (B) Family Floater policies (स्वयं / पुरे परिवार के लिए)

✓ **What costs will be covered?** hospitalization cost, pre and post hospitalization cost, Ayush treatment (=Ayurveda, homeopathy etc).

16.15.2 📞👤: 🗣️ SARAL JEEVAN BIMA-Standardized term Life Insurance policy

For customer, presently it is difficult to compare the term life insurance products because

⇒ fancy names like "Reliance Digi-Term", "Tata maharakshak supreme lump-sum", "i-protect" etc.

⇒ Their internal eligibility conditions also differ greatly. For some of the policies' maximum entry age = 45 years, 55 years 65 years.

⇒ Some of them over extra benefits like free medical treatment, while some do not.

So, IRDAI ordered, "Life insurance companies, you continue above products, but additionally, You also have to launch a standardized term-life Insurance policy named 'Saral Jeevan Bima' from January, 2021.

Condition	Minimum	Maximum
Age limit	18	65
sum assured	₹5 lakh	₹25 lakhs

😊 Benefit? It will help the customers compare policies of different companies more easily. for example:

Hypothetical number (काल्पनिक आंकड़े)	SBI-LIFE	HDFC-Life
Annual Premium for 5 lakh cover →	₹500	₹600
Annual Premium for 25 lakh insurance cover→	₹2500 per year	₹2400 per year (If you buy bigger than more discount like Unacademy!)
How many Insurance claims cleared upon the death of clients?	94%	99%

16.15.3 📞👤 Gen→ Health Insurance → Corona Kavach vs Rakshak



Figure 3: है कोई स्वास्थ्य बीमा पॉलिसी जो कोरोना के भारी हॉस्पिटल बिल से 'रक्षा' करवा दे मेरी?!

2020: IRDAI issued guidelines for the general insurance & health insurance companies to launch standard health policies against Covid-19, with following standard names:



	🛡️🛡️🛡️ Corona Kavach	🛡️🛡️🛡️ Corona Rakshak
Compulsion	Gen. insurance & health insurance companies have to compulsorily launch this	optional for company to launch this policy (अनिवार्य नहीं है वैकल्पिक)
Type	" Indemnity " = upto actual cost in treatment, subject to max limit. so, if ₹5 lakh ki policy= ⇒ Actual treatment cost 2 lakh → company pays only 2 lakh ⇒ Actual treatment cost 7 lakh → company pays max 5 lakh	⇒ Fixed Benefit Plan ⇒ Fixed amount of money if subscribers gets Corona. Irrespective of actual treatment cost.
Coverage	₹50,000 to ₹5 lakh	₹50k to 2.5 lakh
Premium	Decided by an individual company. but the company will have to keep it uniform across all States/UT.	same as left column
Age	minimum age 18 to maximum 65. (dependent younger children are also covered, but they can't 'subscribe' by themselves.) Subscribers' min. age=18 years.	same as left column

🏠👤 further the technical details / differences = poor cost:benefit for UPSC exam. # 📌 थोड़ा-पढ़ो-आगे-बढ़ो

16.15.4 📌📌 Niramya Health Insurance for PH. 📌 OLD SCHEME DONOT-LOOSE-SLEEP

- ⇒ **Boss?** By Dept. of Empowerment of Person with disabilities (दिव्यांगजन सशक्तिकरण विभाग) → Oriental Insurance Company.
- ⇒ **Benefit?** upto ₹1 lakh health insurance for handicapped and mentally challenged.
- ⇒ **Premium?** Orphan Minor PWD= ZERO; other PWDs: ₹250-500, depending on poverty level

16.15.5 📌📌 Rashtriya Swasthya Bima Yojana (RSBY: 2008)

Fee? One time registration ₹ 30. No premium by beneficiary. Govt pays premium. 😊 **Benefits?**

- ⇒ ₹ 30k for medical treatment [smartcard, cashless: even existing ailment, even private hospital.]
- ⇒ ₹ 25k for accidental death. And if breadwinner dies: ₹ 50 x 15 days.
- ⇒ ++Senior Citizen Health Insurance Scheme (SCHIS) –if 60/> they get additional ₹ 30k for treatment. (वरिष्ठ नागरिक स्वास्थ्य बीमा योजना)
- ⇒ Both RSBY and SCHIS are subsumed in PM-JAY (2018) आयुष्मान भारत के साथ विलीन

16.15.6 📌📌: 📌 Why public health insurance for poor people? (गरीबों को सरकारी स्वास्थ्य बीमा क्यों दिया जाए)

- ⇒ Public goods = water, sanitation, transport, medical care, schools (सार्वजनिक वस्तुएं-पानी स्वच्छता परिवहन स्कूल चिकित्सा)
- ⇒ Rich people can seek private alternatives/Even migrate to better countries. But Poor cannot do it → Govt support necessary. अमीर लोग अच्छी सेवाएं बिजी बाजार से खरीद सकते हैं, लेकिन गरीब को सरकारी मदद की जरूरत
- ⇒ “Time Horizon Problem” in a democracy: Frequent election cycles = Govts focus more on short term gain but Healthcare, nutrition, schools: Long gestation period so govts may neglect it. लोकतंत्र में समय क्षितिज समस्या: चुनाव के चक्र में सरकार दीर्घ अवधि के सुधारों की जगह लघु अवधि के लोकलुभावन पर ध्यान देती है, स्वास्थ्य पोषण शिक्षा नजरअंदाज.



16.15.7 Ayushman Bharat / PM Jan Arogya Yojana (PMJAY)



Figure 4: बच्चे के इलाज के लिए कोई पैसा दे दो!

 **(Introduction: DATA)** In the last decade, in-patient hospitalization (अस्पताल में भर्ती रोगी i.e. patient who stays in hospital overnight) has increased nearly 300% in India. More than 80% of the hospital expenditure met by out of pocket (खुद की जेब से). So, rural households are forced to use household savings and borrowings = vicious cycle of poverty (गरीबी का विषचक्र). So, Ayushman Bharat launched in Budget 2018, with two components:

- A) 1.5 lakh Primary Health Care Centers (PHC) to be transformed into Health & Wellness Centres (स्वास्थ्य और कल्याण केंद्र). Free drugs, checkup, mother-child care etc.
- B) **National Health Protection Scheme (AB-NHPS)** → Later renamed 'PM Jan Arogya Yojana (PMJAY)' and launched with Motto "Swasthya Aapka, Saath Hamara" from Ranchi, Jharkhand (2018, Sept). It has subsumed Rashtriya Swasthya Bima Yojana (RSBY) & Senior Citizen Health Insurance Scheme (SCHIS).

16.15.7.1 PM Jan Arogya Yojana (PMJAY, 2018)?

- ⇒ **What is given?** A FREE insurance cover upto ₹ 5 lakh per family, per year for secondary and tertiary hospitalization. All pre-existing disease covered from day 1. Pre and post hospitalization & medicine expenses.
- ⇒ Cashless and paperless access [NITI partnered web portal, with privacy protection]
- ⇒ **Beneficiaries?** Socio-Economic Caste Census (SECC: सामाजिक आर्थिक जाति जनगणना) data → + 8 cr rural + 2 cr urban = 10 cr families = ~50 crore people. No limit on family size or age of members.
- ⇒ Where to get treatment? (इलाज कहाँ पर होगा)
- ⇒ All public hospitals and empaneled private hospitals (by the respective States). Hospitals to have **Pradhan Mantri Aarogya Mitras** (PMAMs/hospital-receptionist-type-ke-log) to help/guide patients in this scheme.
- ⇒ These PMAMs are trained using National Skill Development Corporation (NSDC) and Ministry of Skill Development. (कौशल्य विकास मंत्रालय)

16.15.8 PM-JAY Sub-schemes

1. PM SEHAT (Social Endeavour for Health and Telemedicine) 2020-Dec जम्मू कश्मीर के सभी निवासियों के लिए
 - a. BEFORE: 6 lakh families of the J&K getting Ayushman Bharat Scheme. (= poor family selected through socio economic caste census 2011)
 - b. AFTER PM SEHAT: All residents of J&K (=21 families, rich-poor everyone) eligible for ₹5 lakh health insurance of PM-JAY scheme. Even if they are traveling outside Jammu Kashmir, in other parts of India, they can avail treatment at PM-JAY-walli hospitals.
2. Ayushman CAPF scheme (2021-Jan) केंद्रीय सशस्त्र पुलिस बल
 - a. Joint initiative of Home Ministry & National Health Authority



- b. 7 central armed police forces (CAPF) namely, Assam Rifles, Border Security Force (BSF), Sashastra Seema Bal (SSB), Central Reserve Police Force (CRPF), Central Industrial Security Force (CISF), National Security Guard (NSG), and Indo-Tibetan Border Police (ITBP)
- c. Their Personnel & their family members to be covered in under PM-JAY health Insurance.

16.15.8.1 PMJAY → National Health Authority (राष्ट्रीय स्वास्थ्य प्राधिकरण)

- ⇒ Originally it was an “Agency”, then restructured & renamed into “Authority” (2019).
- ⇒ NHA oversees the implementation of PM-JAY, operational guidelines, collaborate with insurance companies & IRDAI, running web-platform etc. (योजना को क्रियान्वित करेगा बीमा कंपनियों के साथ तालमेल बिठाएगा)
- ⇒ NHA is an ‘**attached** (adjunct) office (संलग्न कार्यालय)’ with health ministry (स्वास्थ्य मंत्रालय). i.e. Health Ministry only looks after parliamentary matters like replying in question hour, tabling annual reports etc. thus giving NHA more freedom in day to day functioning. (रोजाना कार्यों में मंत्रालय की दखल कम)
- ⇒ NHA has a Chief Executive Officer (CEO) with status of **Secretary** to Govt of India (सचिव).
- ⇒ Above NHA → “Governing Board” (शासक-मंडल)
- ⇒ **Chairman:** Minister of Health & Family Welfare (स्वास्थ्य-परिवार कल्याण मंत्रालय)
- ⇒ **Members:** NITI Ayog CEO, NHA-CEO & other govt officials and experts (विशेषज्ञ).
- ⇒ States will be represented in the Governing Board on rotational basis (चक्रानुक्रम).
- ⇒ NHA also implements “National Digital Health Mission” (Basically Sarkaari-google-drive mein x-ray report store kro yojana!) More in 📖 Pillar#6:health schemes

16.15.8.2 PMJAY → State Health Agency (SHA)

- Each State to form a Trust / Society / Not-For-Profit Company / Nodal Agency → that will act as State Health Agency (SHA: राज्य स्वास्थ्य एजेंसी).
 - SHA can directly implement the scheme by themselves OR.
 - ⊖ SHA can tie up with an insurance company to implement the scheme.
 - Although these administrative nuances / modalities are not soIMP.

	Category (श्रेणी)	Cost sharing (खर्च की साझेदारी)
A	"Special Category States" (विशेष श्रेणी के राज्य): - North-Eastern States, and - TWO Himalayan Hilly States: Himachal Pradesh and Uttarakhand*	Union contributes 90%: while State contributes 10% of the cost
B	- Other States: who are not in above category (UP, Bihar, etc.) - Union territory (UT) with legislature: Delhi, Puducherry, Jammu & Kashmir.	60:40
C	- UT without legislature (बिना विधायिका के केंद्र शासित प्रदेश): Ladakh, Andaman Nicobar etc.	100%

- *Before the removal of Article 370 (in 2019), the State of J&K was previously in Special category, so it got 90:10 funding.
- **Afterwards:** J&K is UT with legislature, so, J&K will get 60:40. So, 2019-Aug: Central Government considering creating a new category ‘Hill Union Territory (पहाड़ी केंद्र शासित प्रदेश)’ so J&K may continue to received 90:10 funding. But, no need for 🔄📖🔄📖🔄📖 #🔄 थोड़ा-पढ़ो-आगे-बढ़ो



16.15.8.3 Budget-2020 on Ayushman Bharat PM-JAY

- ✓ We'll setup hospitals in aspirational (=backward) districts for treatment of PM-JAY beneficiaries.
Hospital construction Funding: Public private partnership (PPP) → Public side's funding will be provided using ₹ from health cess on imported medical devices. (More about health cess in Pillar#2-Taxation) आयात होने वाले चिकित्सक उपकरणों पर स्वास्थ्य उपकर लगाकर उस पैसों से पिछड़े जिलों में अस्पताल बनाएंगे
- ✓ We'll use Artificial Intelligence and Machine Learning (AI-ML) to take preventive actions against the spread of diseases. Total ₹6400 cr allotted for PM-JAY. (बीमारियों का प्रसार रोकने के लिए कृत्रिम बुद्धिमत्ता का उपयोग)

16.15.8.4 PMJAY → Challenges? (चुनौतियां)



- Cooperative Federalism spirit is missing. (सहकारी संघवाद की भावना की कमी)
 - States have to sign agreement with Union to begin operations. But, W.Bengal already has state-govt sponsored "Swasthyasathi" scheme in State with similar features so CM Mamta has left PM-JAY (2019, Jan).
 - 2021: Rajasthan Right To Health Bill 2021 (स्वास्थ्य अधिकार विधेयक) ₹5lakh health insurance coverage available at 1) free of cost for workers, small- marginal farmers. 2) others (e.g. Middle class) can avail at ₹850/year.
 - Similar issues in other Non-BJP states. गैर बीजेपी राज्य इसे अपनाने में उत्सुकता / सहयोग नहीं दिखा रहे
- Fiscal Challenges (राजकोषीय चुनौतियां): Budgetary allocations insufficient. If govt borrows more money → in fiscal deficit. Private hospitals may perform unnecessary surgeries & prescribe excessive amount of medicines to extract more money from govt. (अनावश्यक रूप से महंगी दवाई और शल्यक्रिया)
- Administrative Challenges (प्रशासनिक चुनौतियां):
 - Beneficiary identification (लाभार्थी की सही पहचान. अमीर लोग भी गरीब होने का नाटक करके मुफ्त इलाज करवा ले)
 - Doctor to patient ratio (मरीजों के अनुपात में डॉक्टरों की कमी)
 - Physical and IT infrastructure, Transport, connectivity upto village level. (बुनियादी संरचना, परिवहन, संचार कि गांव गांव तक पहुंचन नहीं है)
 - Medical privacy of Patient- data may be leaked to pharma companies for their clinical trials and commercial motives. (चिकित्सा डाटा की गोपनीयता/निजता.)
- Lack of coordination with other schemes: 2019-Feb NHA announced PM-JAY will not cover cataract surgeries, dialysis and normal deliveries because already there are other schemes for poor people. (अन्य योजनाओं के साथ तालमेल की कमी)

16.15.8.5 ES21 on PM-JAY (कुल मिलाकर घी-दूध की नदियां बह रही हैं-आर्थिक सर्वेक्षण)

- ⇒ ES21 analysed the health outcomes of West Bengal (Which did not implement PM-JAY scheme) and its neighbouring States - Bihar, Assam and Sikkim (Who have implemented the PM-JAY scheme) between 2015-2019. And found out W.Bengal has lagged behind them on various health indicators, including Family planning and HIV/AIDS.. पश्चिम बंगाल की तृणमूल सरकार ने प्रधानमंत्री जन आरोग्य योजना नहीं लागू की इसलिए वह स्वास्थ्य में पिछड़ी रह गई और बिहार आसाम और सिक्किम आगे बढ़ गए क्योंकि उन पड़ोसी राज्यों में इस योजना का अमल हुआ है



- ⇒ PMJAY also helped increasing awareness regarding Family planning and HIV/AIDS. (परिवार नियोजन और एचआईवी की जागृति भी बढ़ी है)
- ⇒ During the Corona lockdown → Many of the surgical procedures were postponed due to infection fear, Transportation lockdown, Financial hardships= so PM-JAY claims ↓ reduced. हालांकि कोरोना के चलते बहुत सारी सर्जरी/शल्य क्रिया को स्थगित किया गया था
- ⇒ Still Poor people continued to avail dialysis in PM-JAY. = Proves success and reliance of the scheme. लेकिन गरीब लोग फिर भी डायलिसिस करवाने आते ही रहे जिससे साबित होता है कि गरीब लोग इस योजना में विश्वास रखते हैं

16.15.8.6 Conclusion: PM-JAY (निष्कर्ष)

- ⇒ Sustainable Development Goal (SDG#3): ensure healthy lives and well-beings at all ages. PM-JAY is a right step in this regard, provided that aforementioned challenges are addressed. (More about SDG in Pillar#6) [सतत विकास लक्ष्य#3- सभी के लिए स्वस्थ जीवन सुनिश्चित करने में योजना मदद करेगी] OR
- ⇒ Disease burden robs a poor person of his wages and savings. If aforementioned challenges are addressed, PM-JAY can greatly help in poverty removal and human development in India. OR (बीमारी में गरीब आदमी के वेतन और बचत के पैसे बर्बाद नहीं होंगे- जिससे गरीबी निवारण और मानव विकास में मदद)
- ⇒ If above challenges are addressed, PM-JAY can improve health outcomes, productivity and efficiency of Indian population, thus leading to improvement GDP and in quality of life. (भारतीय जनसंख्या की उत्पादकता और दक्षता में बढ़ोतरी → सकल घरेलू उत्पाद और और जीवन के स्तर में सुधार)

Which one of the following is not a feature of the Ayushman Bharat Scheme? (UPSC-CDS-i-2020)

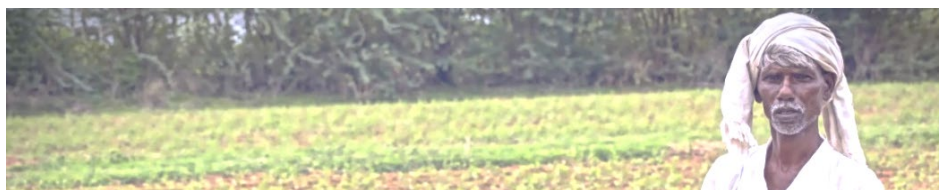
- (a) There is no cap on family size and age.
- (b) The scheme includes pre- and post-hospitalization expenses.
- (c) A defined transport allowance per hospitalization will also be paid to the beneficiary.
- (d) The scheme provides a benefit cover of Rs. 10 lakh per family.

Ayushman Bharat is a national health insurance system for: (UPSC-Geologist-2020)

- a) women b) every citizen c) old age people d) poor and vulnerable.

16.16 GENERAL INSURANCE → OTHER THAN HEALTH INSURANCE

16.16.1 Pradhan Mantri Fasal Bima Yojana (2016)



- Against natural calamities, pests, diseases; (प्राकृतिक आपदाएँ, कीट, बीमारियाँ;)
- Protects before, during and after harvest (फसल की कटाई).
- Premium (बीमा-किस्त) paid by farmers against the total insured amount: Rabi winter crops (1.5%) – Kharif summer monsoon crops (2%) – Horticulture & Commercial crops other than oilseed & pulses (5%). Remainder premium is paid by Union: State Govt (50:50). It's optional for States to join.
- **Nodal Ministry:** Agri Min → Public sector general insurance companies, and empanelled private sector insurance companies. सरकारी सामान्य बीमा कंपनियां तथा निजी क्षेत्र की ऐसी सामान्य बीमा कंपनियां जिनको कृषि मंत्रालय ने इस योजना लागू करने के लिए सूचीबद्ध किया है
- **Challenges?** (इस योजना में क्या चुनौतियां हैं)



- States not paying their portion- they feel premium amount very high, so, Pvt insurance companies not settling claims quickly. राज्य सरकार बीमा कंपनियों की किस्त का हिस्सा नहीं चुका पा रहे, बीमा कंपनी वाले किसानों को मुआवजा नहीं दे रहे, गुजरात, पश्चिम बंगाल सहित कई राज्यों ने इस योजना को लागू करना ही बंद कर दिया है.
- W.Bengal stopped it, & launched its own Bangla Fasal Bima Yojana (2019). Gujarat stopped it & launched 'Mukhya Mantri Kisan Sahay Yojana (2020)' so cooperative federalism missing.
- Union upgraded technical guidelines to fix the delays, but response not good.

16.16.2 🚚🏠🔧 PM-FBY (2.0) revamped in 2020

Before-2020	From 2020-Kharif
Suppose a kharif crop insurance premium = ₹100. ⇒ Farmer paid ₹2 of the premium ⇒ Union paid ₹49 + State paid ₹49. In other words, Union and States shared their premium burden half-half (50:50).	Suppose a kharif crop insurance premium = ₹100. ⇒ Farmer pays ₹2 of the premium ⇒ Union pays only ₹25 to 30 based on whether it's irrigated or unirrigated respectively. ⇒ State may have to pay ₹68-73. So, states' burden increased. ⇒ However, the Union will bear 90:10 of the burden in case of North Eastern States.
Compulsory for farmer to buy this insurance policy, IF he wanted crop loans from bank (बैंक लोन पास करवाने के लिए किसान को यह योजना यह बीमा निकलवाना अनिवार्य था)	Voluntary (स्वैच्छिक) for farmers.
Multiple Perils (एकाधिक आपदाएं) covered such as flood, drought, hailstorm. But, farmers in Rajasthan had no fear of floods.	'Single-peril' (एकाकी आपदा) insurance can be taken e.g. "protection only against drought." This will help reduce ☐ premium amount.
Government allotted a district /area to an Insurance company for usually 1 year.	Minimum 3 years. And if company shows outstanding performance then even more years may be granted. This will encourage companies to invest more in the marketing & insurance agent network.
--	Updated the methodology for assessment of crop loss

16.16.3 🚚🏠🔧 Other Agriculture Insurance Schemes ?

- Apart from PM Fasal Bima, there is Restructured Weather Based Crop Insurance Scheme (RWBCIS, 2016)- protects against weather only. (so not pests/diseases).
- There was a National Agricultural Insurance Scheme and Modified (NAIS), but PM Fasal Bima subsumed it. लेकिन वो सब याद रखने से परीक्षा में बहोत लाभ नहीं.

16.16.4 🚚🏠🔧 Insurance to Banks on Exporters'NPA → NIRVIC Scheme (2019)

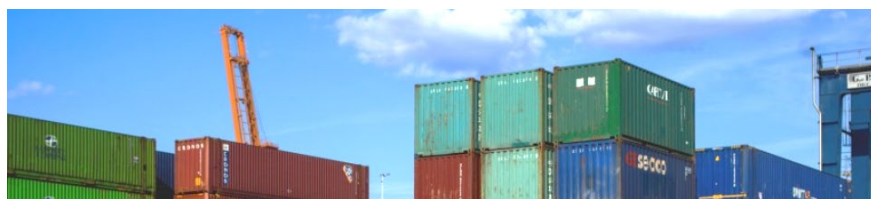


Figure 5: निर्यातक बैंक का कर्जा नहीं चुकाएगा तो नुकसान की भरपाई कौन करेगा

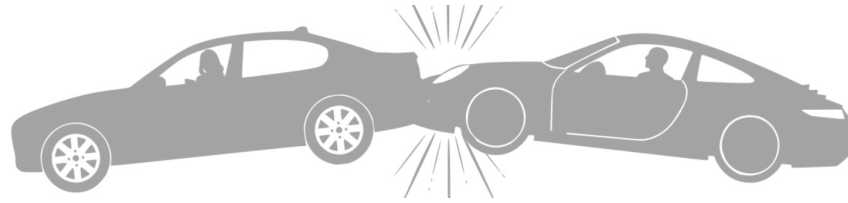
Boss? Commerce Ministry → Export Credit Guarantee Corporation (ECGC)

⇒ NIRVIK (Niryat Rin Vikas Yojana) is an Export Credit Insurance Scheme (ECIS).



- ⇒ Exporter takes a loan from a bank. But if he defaults then ECGC will cover upto 90% of his principal + interest losses to the bank. (Before NIRVIC scheme, it was only 60%)
- ⇒ Exporters pay 'premium (बीमा-किस्त)' to the bank → bank pays it to ECGC. (Exporter need not goto ECGC office himself. He can get the application form from the loan giving bank itself.)
- ⇒ Premium rates depend on sector e.g. diamond, chemical etc. exact figures=NOTIMP

16.16.5 🚗🛡️ Third Party Motor Insurance (थर्ड पार्टी मोटर इंश्योरेंस)



- Motor Vehicles Act (1988) requires all motor vehicle owners to purchase it. (कानूनी रूप से अनिवार्य)
- **Third party (TP) insurance:** When your vehicle hits another vehicle, person or property → that victim (third party) registers a case, gets compensation. IRDAI regulates premium rates & other norms.
- **SC judgement (2019):** TP insurance validity should be 3-5 years, so even if owner forgets to renew annually, the third party is protected.

16.16.6 🚗🛡️ Own Damage Insurance (OD: मोटर संबंधित स्वयं के नुकसान का बीमा)

- It protects owner of vehicle against theft, vandalism, accident, fire.

16.16.7 🏠📄 Title Insurance (जमीन / इमारत का टाइटल बीमा)



Figure 6: जमीन मकान विवादों के कानूनी लफड़े में नुकसान से बचने का बीमा #गुलाबो-सिताबो

- 'Title' (अधिकार-विलेख) means a legal document showing ownership of a property. 'Title dispute': usually happens when multiple persons are claiming ownership of the same land / building.
- 'Title Insurance' protects the new buyer in case of such legal disputes (by refunding the money he had spent in buying land, construction, legal expenses etc).
- Real Estate Regulation and Development Act 2016 (RERA) requires the builders to buy this type of insurance. More on RERA in 📖 pillar#5: urban infrastructure.

16.16.8 🏥📄 Clinical Trial Liability Insurance

- ⇒ Type: General Insurance Cover
- ⇒ Objective: Protect the pharmaceutical company From legal expenses/Lawsuits, if a volunteer patient suffers damage/death in clinical trials. (गर कोई स्वयंसेवक रोगी नैदानिक परीक्षणों में क्षति / मृत्यु ।)

16.16.9 🏠📄 Bharat Griha Raksha & other: Standardized home/factory insurance policies

- IRDAI ordered @General Insurance companies to sell 1) Bharat Griha Raksha, 2) Bharat Sookshma Udyam Suraksha 3) Bharat Laghu Udyam Suraksha from 1/4/2021 onwards.
- **Type?** Standard Fire and Special Perils (SFSP) Policy.
- **Beneficiaries?** protect homes and factories of micro, small and medium enterprises (MSMEs).
- **What damages are covered?** fire, natural catastrophes, riot, strike/hartal, malicious damages, terrorism,, overflowing water tanks etc upto ₹50 crores.



16.16.10 🛡️📄 (Proposed) Catastrophe Insurance (आपदा बीमा)

- ⇒ Protects the client from natural and manmade disasters.
- ⇒ Presently, farmers' crops are protected from natural disasters through PM-Fasal Bima Yojana. But, if his own home was destroyed in floods, it's not covered → Union & State Governments forced to use taxpayers' money for paying compensation to victims of floods, cyclones etc.
- ⇒ IRDAI doing some studies to launch catastrophe insurance (or CAT cover) for poor people.

16.16.11 🛡️📄 Catastrophe Bonds, Surety Bonds:

📖 Refer Pillar#1 C: SEBI-Sharemarket-यह हम पहले ही पढ़ चुके हैं

16.16.12 🐱🖥️ General Insurance → Cyber Insurance (साइबर बीमा)

- It covers the losses related to malware attack, phishing and data, identity theft, ransom payment demand made by the hackers, data restoration costs, business interruption losses due to cyberattacks. The loss of reputation, damage to mental health etc.
- Corona lockdown → home-from-home through computer → demand for such policies 📈.
- Bajaj Allianz and HDFC ERGO are notable general insurance companies offering such products.

🧩? In India, under cyber insurance for individuals, which of the following benefits are generally covered, in addition to payment for the loss of funds and other benefits? (UPSC-Prelims-2020 SetB.Q90)

1. Cost of restoration of the computer system in case of malware disrupting access to one's computer
2. Cost of a new computer if some miscreant wilfully damages it, if proved so
3. Cost of hiring a specialized consultant to minimize the loss in case of cyber extortion
4. Cost of defence in the Court of Law if any third party files a suit

Answer Codes: [a] 1, 2 and 4 only [b] 1, 3 and 4 only [c] 2 and 3 only [d] 1, 2, 3 and 4

16.16.13 📄eIA: e-Insurance account

- ⇒ Shares/Bonds are stored digitally in DEMAT accounts. (More in 📖 Pillar#1 C)
- ⇒ Similarly, Insurance policies can be stored digitally in e-Insurance accounts e.g. NSDL's National Insurance Repository (NIR). (बीमा दस्तावेजों को डिजिटल रूप से संग्रहित करना)
- ⇒ 😊Benefit? convenience to customers especially when he has purchased insurance policies from different companies e.g. Vehicle insurance, fire insurance, Health Insurance, Life Insurance. He can easily track their expiry date online renewal of subscription etc. in one portal. (सदस्यता का ऑनलाइन नवीनीकरण आसान बनाता है)

16.17 📄📈📄 RE-INSURANCE (पुनर्बीमा)

- DICGCI Act (1961) requires banks to take deposit insurance from DICGCI.
- Similarly, Insurance Act (1938) requires insurance companies take 're-insurance' on their biz. बीमा कंपनी ने स्वयं का "धंधा चौपट बचाओ" बीमा लेना होगा
- Previously, only GIC was the sole-reinsurer, but then norms liberalized (2015).
- New re-insurance cos allowed. e.g. India's ITI Reinsurance Ltd. Even foreign re-insurers such as Swiss Re, Munich Re, General Reinsurance (Warren Buffet) are permitted. (अनेक कंपनियों को अनुमति दी गई)



- ☺ **Benefits of multiple re-insurance cos?** GIC's monopoly in dictating re-insurance premium rates is gone. So, insurance cos' cost of operations to decline → biz. expansion, launch innovative products etc.
- (Full) **Budget 2019:** Technical Norms relaxed to attract foreign reinsurers to open branches in India.

16.18 📁🏠 **IRDAI: THE INSURANCE SECTOR REGULATOR (बीमा क्षेत्र नियंत्रक)**

Org संगठन	- 1996: IRDA setup → given statutory status in 1999 (वैधानिक संस्था बनी) - 2014: Its name changed to Insurance Regulatory and Development Authority of India (IRDAI: भारतीय बीमा विनियामक एवं विकास प्राधिकरण) - HQ: @Hyderabad, Telangana. (Whereas RBI & SEBI HQs @Mumbai.)
Structure संरचना	1 Chairman: Dr. Subhashchandra Khuntia (IAS) (5/65), 9 members (5/62) = Total 10. They can be re-appointed.
Functions कार्य	⇒ IRDAI gives separate licenses for life, general & re-insurance companies. ⇒ Prescribes norms for insurance companies for accounting, solvency, audit, commission to agents etc. It can penalize companies, suspend or cancel registration. Appeal → Securities appellate Tribunal (SAT) (More in 📁 Pillar#1C) ⇒ Norms for agents & brokers, banks selling products (Bancassurance), Surveyor/ Loss Assessor, and Third-Party Administrators (e.g. Hospital) ⇒ Consumer grievance redressal via Insurance Ombudsman (शिकायत निराकरण अधिकारी). ⇒ IRDAI is member of Financial Stability and Development Council (FSDC). Ref: 📁 1C

16.19 📁🐯 **CHALLENGES TO INSURANCE INDUSTRY (चुनौतियां)**

- 1) **Capital intensive industry (पूंजी प्रधान उद्योग):** Private players not generating enough profits due to poor returns in sharemarket. Heavy costs in paying agent commission rates and marketing advertisements.
- 2) Corona led policy claims will further damage their profits
- 3) Products are **not cheap**. Premiums expensive. Will become more expensive by Corona losses.
- 4) Insurance agents need more skill, network than banker. For bankers- loan recovery easier (SARFAESI, I&B) compared to an insurance company that invested into shares of a failing company (like IL&FS).
- 5) **Rural people:** either disinterested / un-served despite schemes & IRDAI norms.
- 6) **People hesitate** in buying House / Factory / Fire / Theft insurance due to fear of discovery of 'asset value'- IT/GST raids & ransom demands. → India's "**insurance gap**" is high i.e. all the assets are not insured. (लोग अपनी संपत्ति का पूर्ण रूप से बिमा नहीं करवाते)
- 7) Insurance: Highly regulated, but **Healthcare: highly unregulated**, so
 - Supply demand mismatch: between (doctors-hospitals) vs. patients.
 - Standardized medical treatment costs difficult to ascertain, unlike car damage.
- 8) Delays in claim settlement= fewer repeat customers for health insurance.

16.19.1 Insurance progress indicators (बीमा प्रगति संकेतक)

Table 2: 📁 figures are not important

As per 📁📁 ES21	Insurance penetration (%: बीमा प्रवेश) =Premium divided by GDP	Insurance Density (\$:बीमा घनत्व) =Premium divided by population
Life (2019)	2.82% 📈 Improving but in zigzag fashion. (2014-2019)	\$58 📈 Improving but in zigzag fashion. (2014-2019)



Non-Life (2019)	0.94% Improving but zigzag fashion. (2014-2019)	\$19 Improving steadily(2014-2019)
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For India, these indicators are low compared to Malaysia, China, Thailand & many other developing countries due to aforementioned challenges.

16.19.2 FDI limits in Insurance sector? (बीमा क्षेत्र में प्रत्यक्ष विदेशी निवेश की सीमा)

⇒ Foreign Direct Investment (FDI) is the (more than 10% equity / share) investment made by a foreign entity into an Indian company, with the objective to get involved in the management / production of that Indian company. (किसी विदेशी इकाई द्वारा एक भारतीय कंपनी में 10% से ज्यादा शेयर निवेश करना उसे कहते हैं प्रत्यक्ष विदेशी निवेश)

⇒ e.g. 2018: Walmart-USA bought 77% shares in Flipkart-India @\$16 billion. (More on FDI Pillar#3A)

FDI limits in insurance sector→	Present	Proposed Budget-2021
Insurance company itself	49%	74% **
Insurance intermediaries e.g. agent/broker, surveyor/loss-assessor, third party administrators (hospital who give treat to health insurance clients)	100%	N/A. (because already max limit allowed)

** Budget-2021: announced to amend Insurance Act, 1938 to FDI limit from 49% to 74% in Insurance Companies. With following safeguards: हालांकि कुछ शर्तों के साथ

⇒ the Majority of Directors on the Board and key management persons must be Resident Indians. बोर्ड ऑफ डायरेक्टर तथा कंपनी प्रबंधन के वरिष्ठ पदाधिकारियों में बहुमत भारतीय निवासी होने चाहिए

⇒ At least 50% of Directors must be Independent Directors. कम से कम आधे डायरेक्टर स्वतंत्र डायरेक्टर होनी चाहिए

⇒ Certain % of profits must be retained as general reserve. मुनाफे का कुछ प्रतिशत सामान्य आरक्षित निधि के रूप में अलग से रखना होगा.

16.19.3 Should we FDI beyond 49% in insurance companies? (क्या सीमा बढ़ाए?)

yes we should raise FDI limits (हां बढ़ाई जाए)	No, we shouldn't raise FDI
Indian insurance companies will get additional capital from Foreign investors = this can help mitigating above challenges. - They can expand overseas, mobilize money from Bangladesh/Kenya's insurance clients etc. & invest it in Indian economy. (विदेशों का पैसा भारतीय अर्थतन्त्र में लाना) - IRDAI prescribes "Investment pattern", there is ombudsman for customer complaints. - Further, Companies Act has norms for independent directors, auditing, whistleblower protection, CSR. So, apprehension that foreign investors will cause mischief = unlikely. (निगरानी/नियंत्रण के पर्याप्त प्रावधान हैं, कंपनियों के लिए बदमाशी करना मुश्किल) - Budget-2021 too has mentioned safeguards. - China, Thailand, Indonesia et al FDI limits in insurance sector. We should also follow their path.	Foreign investors will put pressure on Indian insurance companies to generate more profit. So - investment in junk bonds that offer higher return → Collapse. (तुरंत मुनाफा कमाने की चाह में ज्यादा जोखिम वाले बॉन्ड में निवेश) - Insurance company may reject insurance claims for frivolous reasons to increase its profitability to keep foreign investors happy. (मुनाफाखोरी के लिए बीमा दावों को अस्वीकार करना)



17 → () PENSION (पेंशन)

-  **Insurance:** person/his family eligible to receive ₹ if he suffers death / damage. e.g. PM Jeevan Jyoti: ₹ 2 lakhs on death. जीवन बीमा का लाभ लेना है तो व्यक्ति का मरना जरूरी है
-  **Pension:** Person eligible to receive monthly ₹ when he retires. And when he dies, his wife (is usually) eligible to receive monthly ₹. When she also dies, scheme stops. बुढ़ापे में पेंशन मिलता रहे. आपके मरने पर आपके पति या पत्नी को भी पेंशन मिलता रहे
-   ES2019 observed that in future, we'll have an ageing population and less young people, so we should gradually raise the age of retirement. *More in  Pillar#6 → Demographic dividend.*

17.11 EMPLOYEE PROVIDENT FUND ORG. (कर्मचारी भविष्य निधि संगठन)

- 1951-52: EPFO was setup initially by ordinance & then Act.
- Nodal: Labour Ministry (श्रम मंत्रालय).
- EPFO governed by Tri-partite “Central Board of Trustees” त्रिदलीय केन्द्रीय न्यास बोर्ड -
 - Government (Union + state) – 15 nominees (मनोनीत सदस्य)
 - Employers (industrialists) - 10 nominees
 - Employees (workers) – 10 nominees
- They make policy decision about where to invest money (usually G-sec>C-Bonds>Shares; with minimum and maximum slabs) and they decide how much interest should be paid to subscribers.

Chronology	Scheme (Tech. norms not written here as they're not imp4IASexam)
1952	Employee Provident Fund (EPF) ⇒ Principal + interest returned upon retirement age/ death ⇒ Partial withdrawal upto “X%” allowed for education, marriage, illness and house construction. (अवधि से पहले आंशिक रूप से पैसा निकालना) ⇒ 2020:  ATMANIRBHAR → PM Garib Kalyan Package → labour ministry allowed EPFO subscribers' to withdraw upto “X%” of EPF fund to help the workers during lockdown.
1976	Employees Deposit Linked Insurance Scheme (EDLI) ⇒ If worker dies → family gets upto 6 lakh insurance.
1995	Employee Pension Scheme (EPS) ⇒ Monthly pension on retirement (once they attain the age of 58 years old) / permanent disability (स्थायी विकलांगता).

- EPFO subscriber **worker has UAN (Universal Account Number)** that remains unchanged even if he changes job from one organization to another. (मजदूर का खाता नंबर)
- Previously, employee himself couldn't generate his UAN, he had to request his boss to send forms to EPFO. But 2019: EPFO allowed employees to generate UAN online by simply giving Aadhar & Mobile Number. (एक जमाने में मजदूर ने मालिक द्वारा फॉर्म भिजवाना पड़ता था अब मजदूर खुद खाता खोल सकता है)
- Factory owner/Employer has LIN (Labour Identification Number)- which he uses while uploading EPFO documents on Shramsuvidha webportal of Labour Ministry.
- EPFO & ESIC transactions can be done through:
 - Through public and pvt sector banks



- through Ministry of Electronics and Information Technology (MeitY)'s **UMANG App** (Unified Mobile Application for New-age Governance).

17.11.1.1 EPF Commutation (2020)

- ⇒ EPFO: Employees' Pension Scheme (EPS: कर्मचारियों की पेंशन योजना) = worker gets pension after retirement age (58 years).
- ⇒ **EPF Pension commutation** ()= Worker can partially withdraw his pension in advance before reaching retirement age. But, then EPFO will pay him less pension afterwards when he actually reaches retirement age. (पेंशन रूपांतरण: परिपक्वता समय से पहले पैसा उठाना)
- ⇒ 2020: some technical reforms made to help workers here. What/How? NOTIMP# थोड़ा-पढ़ो-आगे-बढ़ो

17.11.2 (2016) Pradhan Mantri Rojgar Protsahan Yojana (Labour Min)

- Private sector employers hire workers informally, but don't report them in official formal records lest they've to contribute to EPFO-funds under statutory norms, face harassment of EPFO officials. (उद्योगपति मजदूर को औपचारिक रूप से नोकरी देने का रेकॉर्ड नहीं रखते, ताकि EPFO की वैधानिक जिम्मेदारियों से छिप सके.)
- So, worker is hired informally, denied job-security & social security. Economic Survey 2015-16 diagnosed it as "EPFO Regulatory Cholesterol preventing formal-job creation. (मजदूरों को नौकरी पर अनौपचारिक रूप से रखा जाता था. औपचारिक नौकरीओं का सृजन नहीं हो रहा था)

EPFO applies to any establishment with 20/> workers		
	But, our boss is not 'showing on records' that he's recruited us. "we are Informal labourers", we are denied job security, social security	
Salary is 15k/<	 Well, EPFO compliance headache prevents me from hiring you "ON PAPER". क्यों मैं ये मजदूरों को अपने सर पे लूँ?	
 Employee: A% 	 Employer (Factory owner / Boss) co-contribute (A%) 	
A% into EPF (Provident)	X% goes to EPF (Provident)	Y% EPS (Pension)
 @Factory owner : "Formally" hire them on paper, & other new recruits, we'll pay your side of contribution for first 3 years= <i>Pradhan Mantri Rojgar Protsahan Yojana</i>		

- So, to encourage pvt companies to hire new workers 'formally' → Govt pays employer (Factory owners) portion (A%) for the first 3 years. **
- This scheme is called Labour Ministry's Pradhan Mantri **Rojgar Protsahan Yojana**.
- Later, Textiles ministry (कपड़ा मंत्रालय) announced, "if it's a textile factory, then we'll pay the X%-walla component (to EPFO), while labour ministry pays the Y%-walla component = this is called "Pradhan Mantri **Paridhan Rojgar Protsahan Yojana**" to encourage formal job creation in the textile sector.

17.11.3 ATMANI Reforms in EPFO (March to August)

EPFO →	 worker	 Boss	 ATMANIRBHAR Reform
Small firm (up to 100 workers)	12%	12%	⇒ Total 24% goes to EPFO



EPFO →	worker	Boss	ATMANIRBHAR Reform
			⇒ PM Garib Kalyan → Government to deposit this 24% deposit from its own pocket upto certain months. (सिर्फ कुछ महीनों के लिए)
Large firm (more than 100 workers)	12% 10%	12% 10%	⇒ Govt will not deposit ₹ from its own pocket for large firm (e.g. Reliance or Tata who've more than 100 workers.) ⇒ In such large firms workers and boss have to deposit ₹ from their own pocket into EPFO. ⇒ But, government has ↓ their % from 12+12=24% to 10+10=20% (so that worker and boss will be left with more money to spend in their hands= shopping/demand ↑ = economic revival). This is (10%) valid from May to July'2020. (सिर्फ कुछ महीनों के लिए)

☞ above thing is not important ANYMORE, for two reasons 1) Temporary measure 2) Government came up with new scheme. So, only remember single line, "during lockdown, Government temporary provided relief to the EPFO contributions for workers and their employers." (तालाबंदी के दौरान सरकार ने ईपीएफओ- अंशदान में अस्थाई रूप से मजदूर और मिलमालिकों को रियायते दी थी)# ⏸ थोड़ा-पढ़ो-आगे-बढ़ो

17.11.4 🇮🇳 Atmanirbhar Bharat Rozgar Yojana= Subsidy from Central Govt in EPFO contribution

It was launched during the Atmanirbhar Bharat 3.0 package(November 2020)

Beneficiary eligibility: Worker's Monthly wages upto ₹15,000 AND

- A) Fresh EPFO-Worker got new job in an EPFO registered firm** OR
- B) Past EPFO-Worker had lost job between March1 to Sept30 of 2020, BUT got a job on/after October1, 2020 in an EPFO registered firm**

****Which EPFO registered firms are eligible for this scheme? (कौन सी इकाई में नौकरी लेनी होगी)**

- ⇒ If it is an old firm, it may have to hire minimum 2-5 new employees Only then the government will give a scheme benefit. (अगर मालिक ने कम से कम इतने मजदूरों को नौकरी पर नहीं रखा तो योजना का लाभ नहीं मिलेगा)
- ⇒ If it is a newly registered firm after "X" date, then no such conditions. etc
- ⇒ ☞ But this much terms are not important for IAS exam.

🇮🇳 Entitlement: यह योजना में फायदा क्या मिलेगा

EPF scheme	worker (मजदूर)	Boss (मालिक)
if the firm has up to 1000 employees	12% of wages → 🇮🇳 Govt to contribute to EPFO	12% → 🇮🇳 Govt to contribute to EPFO (सरकार देगी)
if the firm has >1000 employees	12% of wages → 🇮🇳 Govt to contribute to EPFO	☞ 12%: Boss has to contribute from his pocket. Govt will not contribute. (सरकार नहीं देगी)

🇮🇳 Benefit? Formal Job creation, more money in the hands of workers → demand ↑ → Post corona economy Revival. (औपचारिक रोजगार सृजन, तथा मजदूर के हाथ में ज्यादा पैसा आएगा जिससे बाजार में मांग में बढ़ोतरी)

31 Scheme validity?

- ⇒ Scheme registration open till June 2021.
- ⇒ Registered worker will continue to receive benefit for two years. e.g. if registered in January 2021 → then ₹ upto January 2023.



👉 Note: for faster revision I have used the term worker and boss (मजदूर और मालिक) But, in real mains exam, you should write employee and employer/Entrepreneur (कर्मचारी और नोकरीदाता / उद्यमी)

17.11.5 🌀 MORAL OUTRAGE Q: “why not merge EPFO with ESIC!!!?”

Their laws are different. To merge them you’ve to merge two laws. But this is not some election priority for govt like ‘Triple Talaq bill’. So, you may send suggestion to Prime Minister. But until your suggestion is implemented, prepare the facts as given in the handout. #थोड़ा-पढ़ो-आगे-बढ़ो

17.12 🤖 → 🤖 PENSION FOR GOVT EMPLOYEES & MIDDLE CLASS? = NPS

Govt Employees (from 2004)	Middle Class (from 2009)
- 2004: New Pension Scheme (नवीन पेंशन योजना) →(2009) renamed into National Pension System. (राष्ट्रीय पेंशन प्रणाली) - Subscriber? Those who joined govt. service on or after 01/01/2004** - Mechanism? Employees (10 % of basic pay) + Govt. contribution (14% of basic pay: since Interim-Budget-2019) → goes to PFRDA →NPS Trust → empaneled NPS-Fund-manager → Invested G-sec, Corporate Bonds and Shares depending on your preference in Tier1/Tier2**.	- In 2009, the Government employee-walla National Pension System was made open for all citizens (and NRIs) aged 18-55 on voluntary basis. You contribute money till age of 60, as per your capacity →invested →pension. - 2010: NPS-Lite (Swavlamban): If poor person from unorganized sector (असंगठित क्षेत्र) joined NPS, then govt to co-contribute (समान योगदान) money for five years**.

- ** subject to some technical norms which are not imp for exam.
- NPS subscribers have PRAN: Permanent Retirement Account Number, Just like EPFO subscriber has UAN Number.
- 📊📊 ES20: in NPS: number of of State Govt employees >> union govt employees. And within State govt employees: UP > Madhya Pradesh > Raj > Maharashtra.
- Corona: Subscribers allowed to withdraw funds partially from NPS for treatment of Corona.

17.12.1 🤖 Old Pension Scheme (OPS) will not be re-introduced says Govt in Lok Sabha

- **Before-2004:** Government was entirely responsible for arranging the pension money for its Government employees. (सरकारी कर्मचारी का पेंशन सरकार स्वयं की जेब से देती)
- **But after 2004’s NPS:** Govt Employee’s salary is partially deducted and invested in financial securities, his pension is thus “NOT FIXED nor fully paid by Government” but it’s dynamically linked with dividend & interest generated by those financial securities. (पेंशन की रकम पहले से निश्चित नहीं है)
- Thus, in NPS, Govt employee himself is ‘contributing money’ towards his pension.
- So, some government employee organizations oppose NPS because it does not provide a fixed pension amount but depends on uncertainty in financial market. They keep demanding re-introduction of the old pension scheme (OPS: पुरानी पेंशन योजना).
- 2019-July: Govt clarified in Lok Sabha, “We have no plans of reverting to OPS. Because in OPS, Government has to arrange entire pension money = less funds available for poor people’s welfare schemes. So, we’re going to keep NPS for Government employees.”



17.12.1.1 → Jeevan Pramaan (2014)

- Previously, a pensioner (in any Govt / public sector org.) had to submit a physical life certificate in November each year to prove that he's alive = hardship, bribery.
- "Jeevan Pramaan" – an "Aadhar-based Digital Life Certificate" by Ministry of Electronics & Information Technology (MEITY)
- Pensioner's Aadhar number + biometric reading device → PC, Mobile → "Digital Life Certificate" → submit to the authority → pension released.
- 2020: Jeevan Pramaan system also expanded to EPFO subscribers.

17.13 → PENSION FOR SENIOR CITIZENS WITH CAPACITY TO INVEST?

17.13.1 Pradhan Mantri Vaya Vandana Yojana (2017-DFS, LIC)

- ⇒ Post-demonetisation, banks were flush with deposits, so deposit interest rates were likely to fall → so to protect the senior citizens' income government launched this.
- ⇒ A 60 years/> senior citizen can join.
- ⇒ He can invest minimum ₹ (approx.) 1.5 lakhs to maximum ₹ 15 lakhs.
- ⇒ Money remains invested in the scheme for 10 years.
- ⇒ LIC guaranteed x% annual interest on investment. Then original amount returned. In between, if senior citizen dies then nominee (spouse, children) gets original amount back.
- ⇒ If LIC can't generate guaranteed return, then Govt (Dept of Financial Services) to pay subsidy for shortfall to LIC.

Before	After 2020-May- scheme updated
Last date to join was 31/3/2020	Last date to join extended till 31/3/2023
8% annual interest rate for a period of 10 years. This resulted into ₹1,000 to ₹10,000 monthly pension.	7.40% interest for 2020-21. Then every year it'll be reviewed and updated
⇒ If u want to get ₹1000 monthly pension then min. ₹1.5 lakh investment req. (@8% interest)	⇒ Since interest  from 8% to 7.40% so, if u want ₹1,000 per year pension, you've to invest ₹1,62,162/-*

- ⇒ *figures not imp. but only for illustration. (अगर आप पैसा योजना से बाहर नहीं निकालेंगे तो ब्याज के ऊपर ब्याज मिलते रहेगा)
- ⇒ Other similar schemes: Senior Citizen Savings Scheme, LIC Varistha Pension Bima Yojana but they are old schemes so poor cost: benefit in preparing for UPSC.

 [Asked in UPSC-CDS-2019-1] Consider the following passage about a scheme : It was launched to provide social security during old age and to protect elderly persons aged 60 years and above against a future fall in their interest income due to uncertain market conditions. The scheme enables old age income security for senior citizens through provision of assured pension / return linked to the subscription amount based on government guarantee to Life Insurance Corporation of India (LIC). Identify the scheme.

Answer Choices:

- a) Pradhan Mantri Swasthya Suraksha Yojana
- b) Pradhan Mantri Vaya Vandana Yojana
- c) Liveability Index Programme
- d) Rashtriya Vayoshri Yojana



17.14 → PENSION FOR POOR PEOPLE WITH CAPACITY TO INVEST?



 Atal Pension Yojana (APY)	 Pradhan Mantri Shram-Yogi Maandhan
By Dept of Financial Services, 2015	Interim Budget-2019→Labour Ministry
Only 18-40 age Indian citizen residing in India (No NRI)	Income Tax-payer, NPS,EPFO,ESIC-walla not eligible. अन्य किसी सरकारी पेंशन योजना में नहीं होना चाहिए
No minimum or maximum income limits. Mukesh Ambani can also join, but given that fact that maximum pension is ₹5,000 a month so target-audience is poor people, unorganized workers outside EPFO security.	unorganized sector workers with monthly income upto ₹15k. E.g. street vendors, rickshaw pullers, construction workers, rag pickers, agricultural workers, beedi workers etc. in the age of 18-40
Monthly pay ₹42-210 rupees till the age of 60	Monthly invest ₹55-200 (depending on age). Govt to co-contribute equal amount. Till the age of 60
₹1k-5k monthly pension- depends on @which age joined, how much contributed?	Fixed ₹3k pension per month.
One person-1-subscription account only.	Same. Bcoz Aadhar, BankPassbook, Mobile to find duplicate account
- If husband dies after 60, then wife continues to receive same amt. pension. - If husband dies before 60 age, wife gets premium OR if she continues to pay then she gets pension when she reaches 60. - Both die, then beneficiary (child) receives the entire principal (premium).	If (spouse) husband dies after 60, wife gets ₹1500pm as family pension. Once Wife dies, scheme stops. If husband dies/disabled before 60, wife can continue paying OR withdraw with interest. Premature exit before 60: his contribution returned with interest. पति के देहांत पर पत्नी को आधा ही पेंशन मिले, पत्नी मरी तो बच्चे को कुछ नहीं

Note: 1) Atal Pension Yojana 2) PM Jivan Jyoti Yojana and 3) PM Suraksha Bima Yojana are collectively known as **Pradhan Mantri Jansuraksha Schemes**.

? [Asked in Prelim 2016] Find correct statement(s) regarding 'Atal Pension Yojana':

1. It is a minimum guaranteed pension scheme mainly targeted at unorganized sector workers.
2. Only one member of a family can join the scheme.
3. Same amount of pension is guaranteed for the spouse for life after subscriber's death.

Codes: (a) 1 only (b) 2 and 3 only (c) 1 and 3 only (d) 1, 2 and 3

17.14.1 → Pension: Three Maan Dhan Yojanas

18-40 Age; ₹ 55-200 fees; Pension @60=3000 → family pension ₹ 1500	LIC Fund manager + This Ministry co-contributes	Who?
1) Pradhan Mantri Shram-Yogi Maan-dhan (Feb'19)	Labour	unorganized sector workers with monthly income upto ₹15k



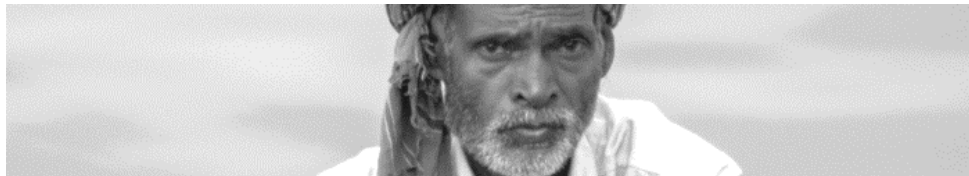
18-40 Age; ₹ 55-200 fees; Pension @60=3000 → family pension ₹ 1500	LIC Fund manager + This Ministry co- contributes	Who?
2) Pradhan Mantri Laghu Vyapari Maan-dhan Yojana (Jul'19)#	Labour	Small trader / shopkeepers whose annual turnover does not exceed Rs 1.5 crore, based on self-declaration.
3) Pradhan Mantri KISAN Maan-dhan Yojana (Aug'19)	Agri	small / marginal farmers with upto 2ht land.

- 1 person can join only 1 type of above scheme. (एक व्यक्ति का सिर्फ एक बार ही पंजीकरण होता)
- Income Taxpayers & those who joined EPFO/ESIC are not eligible for any of these schemes.
- (Full) Budget-2019: announced to launch “Pradhan Mantri **Karam Yogi Maandhan** Yojana” for Small traders / shopkeepers. But, when they actually notified it, the title was changed to “Pradhan Mantri **Laghu Vyapari Maan dhan** Yojana” technically called, “National Pension Scheme for Traders and Self Employed Persons Yojana” or in shorter form “NPS-traders”.
- Budget-2020: we'll launch a Universal Pension coverage with auto enrolment for workers. It'll cover workers even when they change jobs. <update when actually done>

17.14.2 MORAL OUTRAGE Q.: “why not merge all these schemes into one!??

- More schemes = more speech points during election-rally for the minister. फिर चुनाव में बोलेगा क्या?
- So, you may send merger-suggestion to Prime Minister. But until your suggestion is implemented, prepare the facts as given in the handout. #थोड़ा-पढ़ो-आगे-बढ़ो

17.15 → PENSION FOR POOR PEOPLE WITHOUT CAPACITY TO INVEST?



- For Below Poverty Line (BPL) people, Rural Development Ministry's National Social Assistance Programme (NSoAP: राष्ट्रीय सामाजिक सहायता कार्यक्रम) in 1995, where direct money is given without asking for any premium from the beneficiary (लाभार्थी).
- It's a core of the core scheme (अति-महत्वपूर्ण योजना) with 100% cost is paid by Union. It's optional for state govt. to contribute money- They may contribute, if they want to enhance the scheme's features. For example: (इस योजना में राज्य सरकार ने पैसा देना वैकल्पिक है)



NSoAP Components	Union	State (Optional to give extra)
Old age pension @60	₹200-500* (depending on how old)	May give extra & rename it e.g. Samajwadi Pension
Widow pension Aged 40-59	₹200	May give extra and rename it e.g. UP Vidhva Pension @1k
Disability pension: Aged 18-59	Same as widow	e.g. Guj: Sant Surdas Scheme
National Family Benefit INSURANCE	Death of bread winner: ₹10k	e.g. Guj: Sankat Mochan (Total 20k)
Annapurna (2001)	If senior citizen uncovered in any other scheme 10kg grain / pm for FREE.	May give additional.. लेकिन बुजुर्ग खा भी कितना सकता है!?

⇒ 2020: 🧑👴 ATMANIRBHAR → PM GaribKalyan → single time ₹1,000 to poor senior citizen, poor widows & poor disabled (total 3cr person covered)

17.16 🧑👴 PFRDA, THE PENSION FUNDS' REGULATOR

Org	2003: Executive order to setup PFRDA- Pension Fund Regulatory and Development Authority (पेंशन निधि विनियामक एवं विकास प्राधिकरण) 2013: given statutory status. HQ: New Delhi, just like IBBI.
Structure	1 Chairman: (5years / 65age), 5 members (5/62) = 6 people. Can be re-appointed. (पुनःनियुक्ति संभव है)
Functions	⇒ Implement National pension system (NPS), select its fund-managers. ⇒ Regulate all public and private pension funds except EPFO, Seaman, Coal miners, Assam tea plantations related pension schemes as they've their separate acts / mechanisms. ⇒ Protect Clients, Pensioners ⇒ Prescribe liquidity, auditing, investment norms for Pension funds. ⇒ Powers of civil court. (दीवानी अदालत की सत्ता) ⇒ financial awareness generation through pensionsanchay.org.in ⇒ Pension FDI is linked with insurance FDI (49%) so not decided by PFRDA.

17.16.1 Separation of PFRDA and NPS Trust

⇒ 2008: PFRDA setup a body NPS Trust. NPS Trust manages the National Pension System (NPS) and Atal Pension Yojana funds.

⇒ (Full) Budget-2019: PFRDA is the pension sector regulator, so it should separate itself from NPS-trust which is doing pension business activity. We'll initiate technical steps for this. (Recall that Government took over NHB from RBI. Similar pattern visible here- the financial regulators themselves should not be involved in running financial products, so that they can work in an impartial manner. निष्पक्ष रूप से काम हो सके)

17.17 🧑👴 SOCIAL SECURITY FOR OVERSEAS INDIANS (PENSION / INSURANCE)





Following schemes' boss? Ministry of External Affairs (विदेश मंत्रालय)

17.17.1 Mahatma Gandhi Pravasi Suraksha Yojana, 2012 to 2017

- ✓ It was a voluntary “insurance+pension” policy for Indian workers in foreign countries.
- ✓ but very few people subscribed so ultimately closed in 2017.

17.17.2 Pravasi Bharatiya Bima Yojana, 2017

Some nations do not have strict laws regulating the entry, employment or safety of foreign workers. So, the Indian Government classifies them under **Emigration Check Required** (ECR: उत्प्रवास जांच की आवश्यकता) countries. e.g. Saudi, Qatar, UAE, Libya, Malaysia, etc.

- ✓ It's compulsory for Indian workers going ECR nations to join Pravasi Bharatiya Bima Yojana from the empanelled insurance companies.
- ✓ Insurance cover of Rs. 10 lakhs if accidental death/permanent disability while abroad,
- ✓ Maternity expenses (प्रसूति खर्च) cover for women worker, Family Hospitalization etc.
- ✓ Premium: ₹275-375 depending on tenure of policy (पॉलिसी की अवधि के हिसाब से).

18 → FINANCIAL INCLUSION (वित्तीय समावेशन)

- ⇒ **Financial Inclusion**: providing access to banking, investment, pension, insurance and credit (loan) facilities to each citizen. This ensures social, economic and transaction security (लेनदेन में सुरक्षा) (S-E-T), improves social harmony, women empowerment, helps reaping the benefit of “LESS CASH Economy”
( Ref: Handout#1A1) सभी नागरिकों को बैंकिंग, निवेश, पेंशन, बीमा और ऋण की सेवा प्रदान करना)
- ⇒ **Social Security (सामाजिक सुरक्षा)**: a system of payments / assistance by the government to citizens who are ill, handicapped, poor, aged or unemployed. (बीमार, विकलांग, गरीब, वृद्ध या बेरोजगार को आर्थिक मदद करना)
 - The foundation of SS in our constitution @DPSP Article 41- State to provide public assistance to its citizens in case of unemployment, old age, sickness and disablement; and
 - DPSP Article 42- The State shall make provision for securing just and humane conditions of work and for maternity relief. (राजनीतिक पथदर्शक सिद्धांतों में जिक्र)
- ⇒ **Social Justice (सामाजिक न्याय)**: distribution of wealth, opportunities, and privileges within a society- through reservation in jobs, admissions and election and through legal safeguards for protection of civil rights, prevention of atrocity and personnel laws. (समाज के विभिन्न जाती/वर्गों में आरक्षण चुनाव तथा कानूनन अधिकारों द्वारा संपत्ति, अवसरों और विशेषाधिकारों का वितरण)
- ⇒ Collectively, these three (FI,SS,SJ) help in human development, inclusive economic growth and Sustainable Development Goals (SDG: सतत विकास लक्ष्य).(More in  Pillar#6)

18.11 → FIN. INCLUSION: BANK ACCOUNTS FOR EVERYONE

- ⇒ Nationalization of Banks (1955, '69, '80) → 1961: DICGC Act → 1966 Cooperative Banks under RBI's Ambit → 1969 Lead Bank Scheme (SCB:Pvt or Public) given lead role in district. They prepared credit plan with 'Service Area Approach', and coordinate with the efforts of Government, banks and NBFCs.
- ⇒ 1971: State level Bankers' Committee to monitor progress of financial inclusion
- ⇒ 1976: Regional Rural Bank (RRB) setup through Act.
- ⇒ Further, RBI requires commercial banks to setup atleast 25% of their branches in unbanked rural areas. Similar norms for White label ATM Cos.
- ⇒ 2005: RBI permitted no-frills account with zero balance
- ⇒ 2006: RBI permitted Banking Business Correspondent Agents (BCA)



- ⇒ 2011: Government's Swabhiman to increase banking presence in rural area.
- ⇒ 2013: e-KYC permitted.e.g. write Aadhar number, put fingerprint in biometric reading device, no photocopies/xerox req.
- ⇒ 2014: JanDhan Yojana, new Private Commercial Banks (Bandhan, IDFC First)
- ⇒ 2015: Small Finance Banks and Payment Banks.
- ⇒ 2017-18: India Post Payment Bank(More in 📖 Pillar#1B1)

🏠? Service Area Approach was implemented under the purview of (UPSC Prelims-2019)

- (a) Integrated Rural Development Programme
- (b) Lead Bank Scheme
- (c) Mahatma Gandhi National Rural Employment Guarantee Scheme
- (d) National Skill Development Mission

18.11.1 🏠(👤👤👤👤👤)→🏠 Pradhan Mantri Jan Dhan Yojana (प्रधान मंत्री जन धन योजना)



- ⇒ 2014: launched by FinMin → Dept of Financial Services with
- ⇒ **Motto** "Meraa Khaataa, Bhagya Vidhaataa". Scheme in two phases, 6 objectives:

PM JDY – phase I (2014-15)	PM JDY – phase II (2015-18)
1. Financial literacy 2. Banking within 5 kms 3. Account for every family with overdraft, with Rupay ATM-cum-DEBIT Card	1. Credit Guarantee Fund (For Overdraft defaults) 2. Direct Benefit Transfer (DBT) 3. Sell Micro insurance & pension products through bank.

- ⇒ PM-JDY bank account can be opened in any Commercial or Cooperative Bank provided that (1) bank has CBS (2) bank is tied with Rupay Payment Gateway.
- ⇒ Basic Savings Bank Deposit Account - Age 10/>; Zero balance- no penalty. But, Chequebook only with "balance";
- ⇒ There are restrictions on max. number of money withdrawals per month.
- ⇒ Overdraft upto ₹ 10k (originally ₹5k) depending on balance history of min. 6 months. Overdraft given on only one account holder in household (preferably woman). Money has to be returned with interest within 3 years. Banks to decide the loan interest rate.
- ⇒ EVERY Jan Dhan account comes with FREE Accident Insurance; Premium paid by NPCi, it's therefore necessary to regularly use card- atleast for checking balance. Union Government employees, and income tax payers not eligible for this free insurance.
- ⇒ 😊 **Significance?** JAM trinity (JanDhan, Adhar, Mobile) for targeted and direct transfer of subsidies, scholarship and payments to beneficiaries. (लाभार्थी के खाते में सीधा /प्रत्यक्ष लाभ हस्तांतरण)
- ⇒ 🤖 **Criticism?** PM-JDY accounts were used as money mules during demonetization.
- ⇒ 2020: 🏠 **ATMANIRBHAR**→ PM GaribKalyan → ₹500 per month to 20 crore women Jan Dhan accounts for three months. (महिलाओं के जन धन बैंक खातों में 3 महीनों के लिए थोड़ी-थोड़ी रकम जमा की गई)



⇒ ES21: average balance in PMJDY increased during the April-June 2020– indicative of the [1] Money transfer by govt [2] precautionary savings by the accountholders. However, as the economy revived, the balances have decreased, pointing towards increased expenditures on consumption.

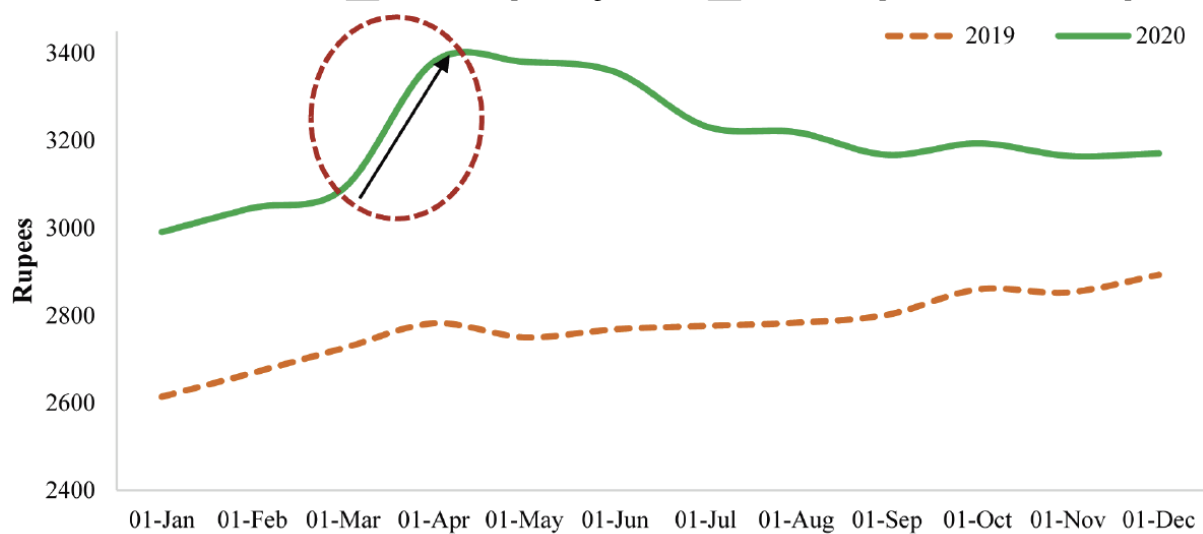


Figure 7: Source Economic Survey 2020-21 Vol2 Page35

[Asked in Pre-2015] Pradhan Mantri Jan-Dhan Yojana' has been launched for:

- (a) providing housing loan to poor people at cheaper interest rates
- (b) promoting women's Self-Help Groups in backward areas
- (c) promoting financial inclusion in the country
- (d) providing financial help to the marginalized communities

18.11.2 Jan Dhan Darshak App (2018)

Jointly developed by Department of Financial Services (DFS) & National Informatics Centre (NIC). It helps people find the nearby financial touch points such as Bank branches, ATMs, Post Offices etc.

18.12 → FIN INCLUSION: INVESTMENTS OTHER THAN BANK

What if poor / lower middle-class person wants better returns than bank deposit rates? He may opt for...

Act	Small Savings Schemes: लघु बचत योजनाएं
Govt Savings Bank Act 1873	Post Office schemes: monthly, 5 year, savings, time deposit
Govt Savings Bank Act 1873	Senior Citizen Savings (2004)
Government Savings Certi Act '59	National Savings Scheme (NSC)'59
Government Savings Certi Act '59	Kisan Vikas Patra 1988-11, 2014
PPF Act 1968	Public Provident Fund (PPF)
No Act →	Sukanya Samriddhi Yojana '2015

- Individual eligibility, upper-lower limits etc. poor cost: benefit...except Sukanya Samriddhi.
- Money (usually) goes into National Small Savings Fund (NSSF)→ loans to Union and (selected States), with technical norms which not imp for us.
- Here, interest rates are decided by FinMin's Dept of Economic Affairs on quarterly basis. (वित्त मंत्रालय का आर्थिक मामलों का विभाग इन योजनाओं की ब्याज दर तय करता है हर 3-3 महीने पर)



18.12.1 📖 (Yearbook) Dept of Post: POSB vs IPPB

Ministry of Communications has two dept: 1) Depart of Telecommunications 2) Department of Posts →

- ✓ Setup by Clive (1766), expanded by **Warren Hastings** (1774)
- ✓ 1854: **Dalhousie**- Post Office Act; 1st postal stamp, rates by weight & not by distance.
- ✓ 2008: Project Arrow for modernization.
- ✓ 2013: **Telegram** stopped by India Post, due to onset of SMS & email.
- ✓ Dept of Post sells
 - **Gangajal** sourced from Rishikesh and Gangotri.
 - UTI-Mutual funds and Sovereign Gold bonds.
- ✓ **Post Shoppe** = special outlet in big post offices for philately (stamp collection hobby)
- ✓ **RTI fees** can be submitted by buying Indian Postal Orders (IPO). **E-IPO** = overseas Indians can pay RTI fees online using this mechanism.
- ✓ **Deen Dayal SPARSH Yojana**: Students in class 6-9 given scholarship for philately.
- ✓ **Dhai Akhar Letter** Writing Competition wherein students asked to write letters to Mother Teresa, Tagore etc. 2019-20's theme "Dear Babu, you're immortal." This theme is inspired by Albert Einstein's homage to Gandhi "Generations to come will scarce believe that such a one as this ever in flesh and blood walked upon this earth".
- ✓ **Officers' training** conducted at **Rafi Ahmed Kidwai** National Postal Academy at Ghaziabad, UP. Kidwai was India's first Minister for Communications.

Dept of Post →	Post Office Savings Bank (PoSB)	India Post Payments Bank (IPPB)
foundation	Govt Savings Bank Act 1873	Companies act 2013 → Public ltd company registered in 2016
Accept demand deposits?	Savings account only	1. Current account 2. Savings account
Accept time deposits?	YES	No, bcoz payment bank
Can keep more than ₹1 lakh balance?	YES	No, bcoz payment bank. But u can link IPPB account with PoSB account to auto-transfer (=SWEEP) excess balance to PoSB.
E-Banking and online bill payment	Not directly but you can do it by linking PoSB account with IPPB account	yes, UPI, BHIM, NEFT, IMPS and BBPS (Bharat Bill pay) available.
Sukanya Smriddhi (daughter's fixed deposit account)	Can be opened	Not possible. Because time deposits are not allowed.
loans to individual?	No. ₹ goes to NSSF	Not until it becomes Small Finance Bank
Objective?	Promote savings habits among poor	Remittance & digital payments



18.12.2 (👤:💰)→(👤:🏦) Sukanya Samriddhi Yojana (2015)



- Parents open a (fixed deposit type) bank account in the name of a 0-10 years girl child, and deposit annually ₹ 250 to ₹ 1.5 lakhs till she reaches age of 14.
- FinMin's Dept of Economic Affairs announces interest rate (originally 9.1%, presently ~8.5%)
- Money (principal and interest) can be withdrawn @ the age of 18-21 depending on whether married or not. So, it indirectly prevents child marriages & empowers the grown-up daughter with money to pursue higher education, small business etc.
- One daughter = ONLY one account can be opened in this scheme. (एक बेटी के नाम पर सिर्फ एक खाता खुल सकता)
- Maximum two daughters can be enrolled by parents/legal guardians.

18.12.3 🏛️ Proposed Government Savings Promotion Act (in 2018)

It aims to merge (outdated) laws related to small saving schemes (ref: previous table)

Benefits ?

- Easier withdrawal during medical emergency, college fees etc,
- Clarification on Minor account, PH people- guardian rights; Grievances redressal.

18.12.4 (👤:👤:💰)→📁 Chit Funds and Prize Chits

Chit Funds (चिट फंड/कोष)- गैरकानूनी नहीं है	Prize Chits (इनामी चिट्स)- गैर कानूनी
Scheme runs for a definite period of e.g. 12 months from Jan to Dec-2020. (निश्चित समय तक चलती)	Scheme is illegal and vaguely designed. It runs until idiot investors keep coming, then it collapses.
⇒ Every month each subscriber deposits equal ₹, as stipulated in the scheme document ⇒ Every month Foreman draws 'chit' → whichever subscribers' name comes he may get loan / prize. (in next month, previous winners' names may not be added to the lottery pool). This way, everyone has an equal chance of winning.	⇒ There are no official documents or account books. ⇒ Scamster will accept whatever small / large amount is offered by the poor person who falls prey. ⇒ Investor doesn't know with surety how much is contributed by other investors?
Even if you won in Feb-2020, still you'll have to compulsorily pay monthly deposits until Dec-2020 when the scheme is officially over.	Not compulsory to pay the monthly deposits after you've won the prize. (Therefore the scheme will collapse eventually, when new subscribers stop coming).
This is legal, under Chit Funds Act (गैरकानूनी नहीं है)	This is illegal under Prize Chits and Money Circulation Schemes Banning Act, 1978

Beyond that, — How does that work? How's that different from NIDHI companies (regulated by Ministry of Corporate Affairs) = B.com thing not. Imp. For UPSC.

18.12.4.1 (👤:👤:💰)→📁 Chit Funds (Amendment) Act, 2019

⇒ To amend 1982's Chit Funds Act.



- ⇒ Will regulate: 'Chit Funds', 'Kuri', 'fraternity fund', 'rotating savings and credit institution (ROSCA)'. (they're basically synonyms)
- ⇒ Chit must be drawn in the presence of at least two subscribers. Video-conferencing is allowed.
- ⇒ Chit Fund's fund manager is called 'Foreman'. New act increases his commission%
- ⇒ New Act also the maximum amount of investment the foreman can accept from subscribers.
- ⇒ Further powers with State Governments. (चिटफंड पर नियंत्रण के बारे में राज्य सरकारों की शक्तियों को बढ़ाया गया)

18.12.5 Chit Fund Scams? थॉथली/ गबन / काण्ड

- Chit fund is a type of "contract" = subject to Concurrent list. So, UNION has Prize Chits and Money Circulation Schemes 1978, Chit Funds Act 1982 (2019); Further state have their own acts / rules / State regulator of Chit Funds. (समवर्ती सूची में होने के कारण केंद्र और राज्य दोनों के कानून)
- Saradha Chit Fund scam, Rose Valley Chit Fund Scam: The scamsters ran multiple schemes in W.Bengal and neighbouring states, invested money in sharemarket, real-estate, shopping malls etc. thus violating the chit-fund laws.
- Further, any collective investment scheme of ₹100 cr/> requires SEBI permission. Yet they didn't obtain permission. (100 करोड़ रुपए से बड़ी किसी भी सामूहिक निवेश योजना में सेबी की अनुमति अनिवार्य)
- They also engaged in Multi-level marketing (MLM) / Pyramid / Ponzy Selling = they'd use new investors' money to pay-off old investors. But once new investors stop coming, it'll collapse. Further ~~Modus Operandi~~ / Timeline not IMP. (इसकी टोपी उसके सर पर)
- **Action?** CBI & other agencies investigating. Union Govt proposed "Banning of Unregulated Deposit Schemes Bill 2018" → later Act 2019.

18.12.5.1 Banning of Unregulated Deposit Schemes Act, 2019

- अनियमित जमा योजनाओं पर प्रतिबंध कानून
- If an entity is soliciting public to deposit /invest money, then it could be regulated by RBI (Bank, NBFC-D, Home loan NBFCs etc), SEBI (MF, ReITs, InvITs etc), IRDAI & PFRDA, Corporate Affairs ministry (NIDHI), State Governments (chit fund), EPFO, etc.
- A deposit-taking scheme is defined as 'unregulated' if person is asking people to deposit/invest money but he has not registered with any of the above organizations. E.g. builders, jewellers, etc. Act prohibits advertisement & money collection in it. (ऐसी कोई भी बचत योजना जो किसी भी वित्तीय नियंत्रक के दायरे में नहीं आती उसे गैरकानूनी माना जाएगा)
- Penalty upto ₹50 crores and jailtime upto 10 years + attaching the assets to refund depositors within prescribed timelines. (जुर्माना, कारावास, संपत्ति की जब्ती)
- Union to setup an online central database of deposit-taking activities in the country.

18.13 ← () FINANCIAL INCLUSION: CREDIT (LOANS: ऋण)

Self Study? Pillar#1A2: Monetary Policy → PSL. Pillar#1B1: Classification → microfinance

18.13.1 : ← () Credit Guarantee (ऋण अदायगी गारंटी)

- **Meaning?** if borrower defaults, then losses of banks/NBFCs will be covered by credit guarantor. So, Bank/NBFC can lend confidently without requiring borrower to pledge collaterals.
- Earlier DICGCI used to give credit guarantee for PSL borrowers, but now this work is done by organizations such as:



Organization	Credit Guarantee Fund	Loans covered
SIDBI + Govt	Credit Guarantee fund trust for Micro & Small Enterprise (CGTMSE)	Loans to Micro & Small Enterprise
Dept. of Financial Services	National Credit Guarantee Trustee Company (NCGTC)	Mudra, ECLGS, Stand up India, Skill & Education loans
Commerce Ministry	Export Credit Guarantee Corporation of India fund (ECGC)	Exporters

18.13.2 (💰🔧📁📦)=(💰💰) Refinance (पुनर्वित्त)

- When an AIFI (or MUDRA) gives new finance to Banks/NBFCs based on the quantum of finance they (Bank/NBFC) have already given to end-borrowers.
- Usually works via the process of **securitization** of the previous loan papers. ~~How it happens in real life?~~

Ans. NOT IMP. # 📉 थोड़ा पढ़ो आगे बढ़ो

18.13.3 🧑🏠🏢 MSME: Definition changed in ATMANIRBHAR (2020)

- 2006: Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 gave definition of micro, small and medium enterprises
- 2020: ATMANIRBHAR → MSME ministry changed the definition as following: निवेश और कुल बिक्री के हिसाब से उद्योगों को वर्गीकृत किया जाएगा. विनिर्माण (mfg) और सेवा (services) क्षेत्र के उद्योगों के लिए एकसमान व्याख्या।

💡 **Note:** This handout only deals with 'loan' component of MSME. For other MSME issues/challenges, refer (More in 📖 Pillar#4B → MSME)

Existing MSME Classification			
Criteria : Investment in Plant & Machinery or Equipment			
Classification	Micro	Small	Medium
Mfg. Enterprises	Investment < Rs. 25 lac	Investment < Rs. 5 cr.	Investment < Rs. 10 cr.
Services Enterprise	Investment < Rs. 10 lac	Investment < Rs. 2 cr.	Investment < Rs. 5 cr.

Revised MSME Classification			
Composite Criteria : Investment And Annual Turnover			
Classification	Micro	Small	Medium
Manufacturing & Services	Investment < Rs. 1 cr. and Turnover < Rs.5 cr.	Investment < Rs. 10 cr. and Turnover < Rs.50 cr.	Investment < Rs. 50 cr. and Turnover < Rs.250 cr.

👉 in above image, read "<" sign as "NOT MORE THAN (से अधिक नहीं)"

Investment: निवेश annual turnover: वार्षिक कारोबार

18.13.4 🧑🏠🏢 MSME Non-NPA borrower → ECLGS 1.0

ऋण अदायगी गारंटी - उन उद्योगों के लिए जिनके लोन-खाते अभी एनपीए/अनर्जक परिसंपत्ति की श्रेणी में नहीं है

⇒ Corona Lockdown → MSME business hurt → need loans to restart business → Emergency Credit Line Guarantee Scheme (ECLGS: आपातकालीन क्रेडिट लाइन गारंटी योजना). This scheme will expire in 31/3/2021 (originally deadline was shorter, but later extended under Atma-Nirbhar 3.0 but 📉📦📉📦📉📦📉)



⇒ Eligibility?

- MSME with a turnover upto ₹100 crore. Mudra borrowers are also covered.
- Previous outstanding loan account can't be more than ₹25 crores, and can't be not an NPA. (It may be a regular, SMA0 or SMA1 account, as on 29/2/2020).

⇒ **Loan Amount?** 20% of the outstanding loan.

⇒ **Loan Tenure?** 4 Years (मियादी/समयकाल)

⇒ **Loan Interest?** 9.25% (Bank), 14% (NBFC).

⇒ **Collateral?** Not required. (गिरवी कुछ भी नहीं रखना होगा)

⇒ If the borrower doesn't repay loan principal or interest → Credit guarantee covered by NCGTC (National Credit Guarantee Trustee Company Limited), a company under the Dept of financial services in FinMin.

18.13.5 MSME Non-NPA borrower → ECLGS 2.0 (Atma-Nirbhar 3.0)

It was launched during the Atmanirbhar Bharat 3.0 package (November 2020)

Eligibility? (Two conditions must be fulfilled simultaneously)

- 1) MSME as well as Non-MSME (large) firms operating in
 - (a) Healthcare sector (स्वास्थ्य क्षेत्र) OR
 - (b) 26 stressed sectors Identified by RBI is KV Kamath committee (e.g automobiles, tourism, cement, gems and jewellery etc तनावग्रस्त क्षेत्र) AND
- 2) Its outstanding loans are > ₹50 crore - upto ₹ 500 Crore (as on 29.2.2020)

Benefit?

- ✓ Extra 20% loans against outstanding loans. (जितना कर्जा बकाया है उसके सामने 20% अतिरिक्त कर्ज दिया जाएगा)
- ✓ Interest Rate not explicitly mentioned in Press-Statement. (योजना की प्रेस विज्ञप्ति में स्पष्ट रूप से खुलकर नहीं बताया, तो हमने खुद से गूगल सर्च मारने की कोई जरूरत नहीं है# थोड़ा-पढ़ो-आगे-बढ़ो)
- ✓ Repayment tenure of above loan: 5 years including 1 year moratorium on principal repayment. (5 साल में कर्ज चुकाना होगा और उसमें भी 1 साल तक मूलधन चुकाने पर रोक)

18.13.6 MSME NPA borrower → Subordinate Debt (गौण ऋण)

ऋण अदायगी गारंटी- उन आर्थिक तनावग्रस्त उद्योगों के लिए जिनके लोन-खाते पहले से एनपीए श्रेणी में आ चुके हैं।

⇒ **Beneficiary?** MSME whose loan account is in NPA/ stressed category. लघु/

⇒ Such stressed MSME to be given subordinate loan Upto ₹75 lakhs to revive business.

⇒ **Tenure/Interest?** Not clearly mentioned.

⇒ If the borrower doesn't repay loan principal or interest → Credit guarantee by CGTMSE (Credit Guarantee Trust for Micro and Small enterprises, an org funded by SIDBI + Govt).

18.13.7 MSME Loans: FM tells Bankers not to fear 3C

⇒ Public Sector Banks' officers are worried that if loans given to MSME turn NPA then 3Cs will harass them unnecessarily: (बेवजह परेशान किया/सताया जाता है)

- Central Bureau of Investigation (CBI: केंद्रीय जांच/अन्वेषण ब्यूरो),
- Central Vigilance Commission (CVC: केंद्रीय सतर्कता आयोग)
- Comptroller and Audit General (CAG: नियंत्रक एवं महालेखा परीक्षक)

⇒ So, FM Nirmala.S has assured PSBs- don't worry and give loans to eligible borrowers.

18.13.8 MSME → Equity infusion via Fund of Funds (निधियों की निधि)

⇒ Govt will set up a Fund of Funds with ₹10,000 crore.



⇒ This FoF will invest in daughter funds (who'll supply ₹40k cr from their funds). So, total 10k+40k=50k equity funding/infusion to MSME. (इक्विटी के रूप में कंपनी में जान फूंकना)

18.13.9    NBFC → Mudra (2015, 100% SIDBI subsidiary)



- Micro Units Development & Refinance Agency. (सूक्ष्म इकाई विकास एवं पूनः वित्तपोषण एजेंसी)
- **Objective?** provides indirect lending via SCB, RRB, Cooperative Banks, MicroFinance Inst & other NBFCs. (अनुसूचित वाणिज्य बैंक क्षेत्रीय ग्रामीण बैंक सहकारी बैंक गैर बैंक वित्तीय कंपनियों द्वारा परोक्ष रूप से कर्ज देता है)
- **Ownership?** It's wholly owned by SIDBI, and also receives the funding from PSL-shortfalls via RBI, and budgetary support via Department of Financial Services.
- **Beneficiary?** Micro Enterprises from Agri-allied sectors, mfg & service sector who are not registered under the companies act = Non-corporate type. (जिन्होंने कंपनी कानून में पंजीकरण नहीं करवाया)

Table 3: Mudra-Products:

Pradhan Mantri MUDRA Yojana (PMMY)	MUDRA Rupay Card
1) Shishu : loans upto 50,000/-	- ATM cum Debit Card issued against MUDRA loan account.
2) Kishor : >50,000/- upto 5 lakh	- For working capital component.
3) Tarun : > 5 lakh and upto 10 lakhs	- Can be accessed in all modes like a routine debit card (ATM, MicroATM, PoS, Online)

- Mudra loans are collateral-free (जमानत से मुक्त). If borrower defaults on loan, then lender's losses are covered through Credit Guarantee Fund for Micro Units [CGFMU] which is operated by National Credit Guarantee Trustee Company Ltd. [NCGTC, 2016]- which is a private ltd company by Dept of Financial Services in Finance Ministry.
-  **MUDRA Challenges?** (1) Loan Interests are high (2) Rising NPA/Bad loans.

18.13.10    Mudra Loans → Shishu Loans pe 2% Interest subvention

⇒  ATMANIRBHAR-2020: Shishu loan borrowers = 2% Interest subvention (ब्याज-अदायगी में सरकारी-मदद) IF they're prompt payees (=repaying the loans regularly).

⇒ This offer is valid for 12 months.

  Pradhan Mantri MUDRA Yojana is aimed at (Asked in UPSC-Pre-2016)

- bringing the small entrepreneurs into formal financial system
- providing loans to poor farmers for cultivating particular crops.
- providing pensions to old and destitute persons.
- funding the voluntary organizations involved in the promotion of skill development and employment generation.

18.13.11   psbloansin59minutes.com (2018)

portal by SIDBI & 5 PSBs. GST-registered MSME get loans 10L to 1 cr. Without collaterals. if loan approved then ₹1000 fees need to be paid

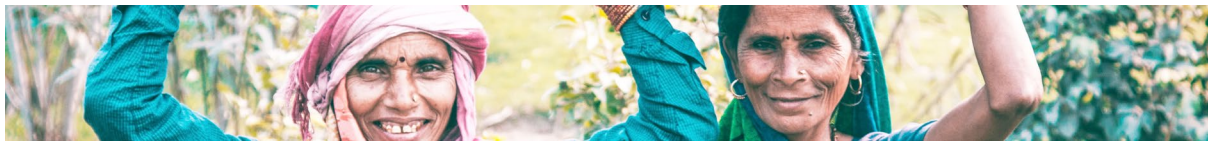
18.13.12  Stand Up India Scheme, 2016 (उत्तिष्ठ भारत)

- **Boss?** FinMin's Dept of Financial Services (वित्तीय सेवा विभाग)



- **Objective?** Each SCB bank branch to give Greenfield Loans between ₹10 lakh and ₹1 Crore to at least 1 SC/ST and atleast 1 Woman entrepreneur with tenure upto 7 years.
- **Collateral?** Bank can ask collaterals. If loan without collaterals, then Credit Guarantee Fund for Standup India (CGFSI) operated by NCGTC.
- **(Full) Budget-2019:** this scheme extended till 31/3/2025.
- Margin money = is the amount of money that a bizman has to arrange by himself from his own pocket/savings for the given biz-project. Remaining amount is given as a loan by the bank.
- **Budget-2021:** 1) margin money requirement from 25% to 15%. 2) Agriculture related biz projects also eligible

18.13.13 Self-help group (स्व-सहायता समूह) → Credit



- is an informal group of 10-20 local people to combine their savings/ resources, engage in biz activity like weaving, agarbatti etc अपनी बचत और संसाधनों की मदद से कुछ छोटा उत्पादन करने वाला गरीब लोगों का एक अनौपचारिक समूह
- and not registered in as a firm / company under partnership act or companies act etc.
- Self-Help Groups are formed under the government schemes like National rural livelihood mission (NRLM). More in Pillar#6]
- **(Full) Budget-2019:**
 - 1 woman in each self-help group (SHG) will be made eligible for ₹ 1 lakh loan under **Mudra** scheme.
 - Every verified woman SHG member with a PM Jan Dhan account eligible for overdraft of ₹ 5,000.
- **ATMANI** → **PM GaribKalyan** → Women Self Help Groups (SHGs) to be given ₹20 lakh collateral free loans. Further,
 - Government will procure masks and sanitizers prepared by SHG = ₹₹ income for poor families.
 - These SHG are given additional 10-15k rupees as Revolving funds (RF: परिक्रमण निधि), if they're holding – regular meetings, regular savings, and maintenance of proper books of accounts etc. ATMANI= RF fund disbursement will be done through PAISA webportal.

18.13.14 Street vendors's AtmaNirbhar Nidhi Scheme (SVANidhi)



- ⇒ **Boss?** Ministry of Housing and Urban Affairs- आवास और शहरी मामलों का मंत्रालय
- ⇒ **Pradhan Mantri Street Vendor's AtmaNirbhar Nidhi Scheme (PM SVANidhi)**
- ⇒ Street Vendors will be given ₹10,000 loan via banks, NBFCs, Micro Finance institutions. (सड़क विक्रेता/फेरीवाला को बैंक, गैर-बैंक वित्तीय संस्थान, सूक्ष्म वित्त संस्थान से कर्जा मिलेगा)
- ⇒ **Loan Tenure:** 1 year. Repayment to be done on a monthly basis.



⇒ Loan Interest? approx @7.25% & if vendor repays in timely fashion → govt will give 7% interest subsidy in his bank account. (फेरीवाला ने रुण अदायगी नियमित रूप से की तो ब्याज में सरकार राहत देगी)

⇒ Scheme Valid till: 2022-March.

18.13.15 Kisan Credit Card (1998)



1998: Launched by RBI + NABARD. Farmer gets credit card from PSB, RRB, State Cooperative Banks for:

- Can swipe it to buy farm inputs (seeds, fertilizers, pesticides etc.)
- Investment credit requirement for agriculture
- Working capital for maintenance of farm assets
- Post-harvest expenses, (फसल काटने के बाद होने वाले खर्च)
- Consumption requirements of farmer household; (घर में उपभोग हेतु खर्च)
- Can withdraw cash (as loan).
- Money to be repaid with interest. Accidental insurance also given.
- **Budget-2018:** Kisan Credit Card (KCC) extended to Animal Husbandry and Fisheries farmers. Interim-Budget-2019: they (animal/fisheries-walla) too will get the interest subvention
- **Interim-Budget-2019:** comprehensive drive with a simplified application form to get all farmers under KCC cards.

Under the Kisan Credit Card scheme, short-term credit support is given to farmers for which of the following purposes ? (UPSC-Prelims-2020)

1. Working capital for maintenance of farm assets
2. Purchase of combine harvesters, tractors and mini trucks
3. Consumption requirements of farm households
4. Post-harvest expenses
5. Construction of family house and setting up of village cold storage facility

Codes: [a] 1, 2 and 5 only [b] 1, 3 and 4 only [c] 2, 3, 4 and 5 only [d] 1, 2, 3, 4 and 5

18.13.16 Interest Subvention (ब्याज सहायता)

Government pays part of the interest rate for borrower. (farmer, MSME, affordable housing etc) such as:

- Farm loans upto 3 lakhs → 9% MINUS 2% (to all farmers) MINUS 3% (regular paying farmers)= only 4% loan interest farmer has to pay.
- **Interim-Budget-2019:**
 - KCC-card-walla Animal Husbandry and Fisheries farmers also eligible.
 - If natural disaster- then crop loans are rescheduled, we'll streamline the subvention norms there.
 - **MSME:** incremental loans upto ₹1 crore to GST registered MSME industry= 2% subvention. (As such already announced by Modi in 2018)

18.13.17 PaiSA Portal (2018)

- Ministry of Housing and Urban Affairs (MOHUA) → Deendayal Antyodaya Yojana-National Urban Livelihoods Mission (NULM) → urban poor are given skill training, bank loans to setup business → interest subvention. (more in Pill#6).



- 2018: MoHUA launched PaiSA (Portal for Affordable Credit and Interest Subvention Access) with the help of Allahabad Bank as the nodal / coordinator.
- PaiSA portal aims to connect with all scheduled commercial banks, RRBs and Cooperative Banks.
- 🤖 **Before this portal:** Interest subvention was released manually on a quarterly basis, sometimes delays.
- 😊 **After this portal:** released on a monthly basis, and can be tracked through this portal, beneficiary gets SMS information.

18.14 📁📌📌📌 FARM LOAN WAIVER (कृषि ऋण माफी)

18.14.1 📁📌📌📌 Agri-Finance → Loan waivers for the farmers

- 2008: 📅 Budget → Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS). On their outstanding crop-loans upto 29/Feb/2008 →
 - Small and marginal farmers given 100% debt waiver : कर्ज माफी;
 - Other farmers were given 25% debt relief : ऋण राहत.
- FinMin → Department of Financial Services → paid the dues to the banks in a phased manner on behalf of farmers → 2009: 15th Lok Sabha Election won by UPA/Congress.
- **2016-18:** The state governments of Tamilnadu, Maharashtra, Karnataka, Uttar Pradesh, Jammu Kashmir, Punjab, Chhattisgarh, Andhra, Telangana et al. also launched in similar debt waiver and debt relief.
- **2017:** 📅 Budget gave 60 days interest waivers to farmers on account of the problems farmers suffered during demonetization in 2016. (नोटबंदी के बाद कुछ दिनों के लिए ब्याज माफ किया था)



18.14.2 📁📌📌📌 = 📌 Agri-Finance → Farm loan waivers: arguments in favour

1. 2008: Post-subprime crisis and global financial crisis, the demand for textile declined in the international market → cotton prices fell in India → farmers suffered. वैश्विक आर्थिक संकट के बाद कपास/रुई निर्यात में कमी
2. 2014: drought, 2015: again drought. अकाल 🤖
3. 2016-17: Demonetization → cash shortage → price of agricultural commodities fell.
4. Thus, farmers are suffering for a decade (2008-18), as evident from the violent agrarian agitations in Madhya Pradesh, Uttar Pradesh and Maharashtra in 2017 and 2018.
5. While corporate borrowers are eligible for loan restructuring, farmers are not given such benefits. So farmers should be given loan waiver. उद्योगपतियों के कर्ज का तो पुनर्गठन हो जाता है
6. “Debt overhang” (ऋण की अधिकता): a situation where all current income gets used up in repaying the accumulated debt. Farmer feels no motivation to invest in his ‘business’. Debt waiver cleans up his liability. It’ll spare his income /savings for investing in better seeds/fertilizers and machines. (Counter: 📅📅 ES20 found no such evidence.)

18.14.3 📁📌📌📌 = 📌 Agri-Finance → Farm loan waivers: arguments against

1. 🚫 **Moral Hazard (नैतिक जोखिम):** Lack of incentive to be "disciplined", when risky behavior is insured by someone. If the government continue to give loan waivers, farmers will have no discipline to be efficient, cost-savvy and hard working. (जरूरी नहीं कि कर्ज माफी के बाद वह जिम्मेदार बनके श्रम करें)



2. “Loan waivers undermine honest credit culture. NPA problem will get aggravated.”, said ex-RBI Governor Urjit Patel.
3. 📦 Whenever elections are near, agri-loan defaults are increasing. It hints farmers are strategically defaulting on loans, in anticipation of waiver. (चुनाव के कारण कर्ज माफ कर दिया जाएगा, ऐसी रणनीति के साथ, जानबूझकर किसान लोन वापस नहीं कर रहे)
4. Loan waiver **did not** 📈 **our crop production or GDP growth**, said 📊 ES17 (कर्ज माफी के बाद फसल उत्पादन तथा सकल घरेलू उत्पाद में बढ़ोतरी होने के कोई सबूत नहीं मिले)
5. Thus, Government Intervention has hurt more than it has helped., says 📊 ES20 (सरकारी दखल से यहाँ पर मदद कम और तकलीफ ज्यादा हुई है-ऐसा आर्थिक सर्वेक्षण का मानना है)
6. **Loan waivers** → 📈 **fiscal deficit** → households and business firms will be hurt. (More in 📖 Pillar#2)
7. **Total farm loans**: ~5.5 lakh cr (2013). Out of that ~60% by formal lenders (banks, Microfinance etc.) Rest by informal money lenders (*Village Baniya, Shroff* etc.) So even if loan waivers are announced, all farmers will not benefit from it. जिन्होंने अनौपचारिक स्रोतों से कर्जा लिया उन किसानों को कोई लाभ नहीं मिलेगा
8. **Govt's expenditure** on healthcare is LESS than 2% of GDP. WHO recommends 5%. If all the farm loans are waived it will cost 1.5% of GDP. So, if government has so much spare money to spend, it'll be better to spend in public healthcare which will benefit both farming and non-farming families. Similar argument for education expenditure. बेहतर होगा हम स्वास्थ्य तथा शिक्षा पर पैसा खर्च करें ना कि किसानों का कर्ज माफ करने में

18.14.4 🧐🔍🔗 = 🧐🔍 Anti-Argument: Loan waiver will not stop farmer suicide

Farmer suicide is a result of: (किसान की आत्महत्या के विभिन्न कारण)

1. Lack of marketable surplus produce because they've small landholding, lack of irrigation, high yielding seeds and fertilizers. (खेत छोटे हैं, उत्पादन इतने ज्यादा जल में नहीं कर पा रहे कि जिसे बेचकर मोटी रकम कमा सके)
2. Lack of remunerative prices because of challenges in APMC, MSP and transport-storage infrastructure. (उत्पादन की किसान को अच्छी कीमती नहीं मिल रही)
3. Lack of financial inclusion and financial planning. Even after good monsoon and good harvest, they waste money on social events and pilgrimage. (अच्छी फसल-किसान सामाजिक प्रसंगों, तीर्थ यात्राओं में पैसा बर्बाद करते हैं)

So, loan waiver is a short-term remedy that can't prevent farmer suicide until above three issues are addressed.

18.14.5 🧐🔍🔗 📌 Farm Loan Waiver: Conclusion

- ✓ From the aforementioned analysis, it's evident that farm debt waiver will have negative consequences for Indian economy. (कर्ज माफी से भारतीय अर्थतंत्र पर नकारात्मक असर होगी. यह किसानों की समस्याओं को स्थाई रूप से हल नहीं करेगा)
- ✓ Debt waiver is not a sustainable solution against agrarian distress, we should work on more efficient and targeted ways to help farmers. (लक्षित रूप से किसानों की मदद की जाए) (More in 📖 Pillar#4A-Agri Schemes)

18.14.6 🧐🔍🔗 Atma-Nirbhar Farm Loan Reforms (2020)

- ⇒ Suspension/Moratorium on the farm loans for “X” months from March 2020. Originally X=3 months, then 6 months..... (कृषि ऋण-अदायगी स्थगित की गई)
- ⇒ Cheap loans via Kisan Credit Card will be given to PM KISAN beneficiaries, Fishermen and Animal Husbandry farmers. (रियायती ब्याज दर पे कृषि-ऋण देंगे)
- ⇒ NABARD to give additional refinance to Regional Rural Banks and Cooperative banks and. (क्षेत्रीय ग्रामीण बैंक और सहकारी बैंकों को पहले से अधिक पुनरवित्त दिया जाएगा)
- ⇒ (More AGRO SCHEMES in in 📖 Pillar#4A-Agri Schemes)



18.15 FINANCIAL INCLUSION: INSURANCE & PENSION

- Various schemes are given in previous sections: But just to quickly recall the notable terms: **Insurance:** Postal Life, ESIC, PM Jeevan Jyoti & Surkasha Bima (₹2 lakh), PM-JAY (₹5 lakh annual health insurance per family), PM-Fasal Bima (1.5-5% premium);
- **Pension:** EPFO, NPS, Atal Pension (1-5k), PM Shram Yogi Mandhan (3k), PM Vay-Vandana (8%@LIC), Maan-Dhan Yojanas (3k/pm)

18.15.1 Micro Insurance (सूक्ष्म बीमा)

- ⇒ Insurance policy may be Life / General Insurance with a very low premium.
- ⇒ When small sum insured (upto ₹50k) & target audience is poor / villagers / farmers.
- ⇒ It may be an individual / group based insurance. Intermediaries such as NGO, SHG, MFI help in selling such policy. Policy/ Contracts are given in local language. e.g. LIC's Jeevan Madhur and Jeevan Mangal

18.15.2 Gig Workers' social security code (गिग कर्म की सामाजिक सुरक्षा संहिता)



- ⇒ **Informal workers** (अव्यवस्थित कर्मी)= doesn't have formal job contracts with employers. E.g. Domestic Maids, Brick Kiln Workers, Construction Labourers, Gurkha Chowkidar, Dhaabaa cooks/waiters etc.
- ⇒ **Gig workers** (गिग कर्मी)= Uber Taxi Drivers, Amazon/Zomato Delivery boys, Urbanclap's beauticians/plumbers/ AC repairman, Unacademy Educators etc. They are freelancers / independent contractors (स्वतंत्र ठेकेदारों) hired by startup or digital companies for short-term engagements. While they may have some written contract to deliver services to the company, but the contract is worded in such manner they are not "regular employees" of a company = not eligible for EPFO, ESIC etc.
- ⇒ 2019-Sept: Labour Ministry drafting a "social security code for all informal & gig workers". It aims to provide 'insurance on death/disability/sickness', maternity benefit, pension, scholarship for their children etc. (मृत्यु / विकलांगता / बीमारी पर बीमा, मातृत्व लाभ, पेंशन, गिग कर्म के बच्चों को छात्रवृत्ति)

18.15.3 ATMANIRBHAR → Workers' Social security (2020)

- ⇒ Annual health check-up for all employees. (स्वास्थ्य जांच)
- ⇒ Govt's Social security schemes will be extended to Gig workers and platform workers (गिग प्रणाली के श्रमिक e.g. Zomato delivery boys, Urbanclap beautician, uber taxi drivers etc.)
- ⇒ Central Government's Building and Other Construction Workers Act, 1996: → workers contribute ₹र to a fund held by the State Government → they get pension after retirement/accident compensation etc.
- ⇒  ATMANI → PM GaribKalyan → State Governments ordered to use this ₹र for helping construction workers during Corona.
- ⇒ Portability of social security benefits to migrant workers. E.g. If a construction worker deposits a premium in Gujarat building workers welfare fund → Afterwards he returns back to home state Odisha, he will get pension from there. (सामाजिक सुरक्षा लाभ की सुवाह्यता- अपने वतन वापस जाए तो भी लाभ मिलते रहे)

 **Sidenote:** Lot of controversy because govt has relaxed/suspended labour laws during Corona, but we will study it under pillar 4.



18.16 🧑🏫🧑🏫🧑🏫: 🧑🏫 FINANCIAL INCLUSION: CUSTOMER PROTECTION (ग्राहक सुरक्षा)

🧑🏫 Bank/NBFC (under RBI)	📄 Finances (SEBI)	🏷 Insurance (IRDAI)	👤 Pension
Ombudsman: Bank, NBFC, Digital Transaction (given below)	SCORES Portal→ SEBI→SAT	Insurance Ombudsman via IRDAI Act '1999, hears matters upto ₹30 lakhs. If higher claim then consumer courts / other courts.	- NPS: NSDL→ PFRDA. - If EPFO- then its internal machinery

18.16.1 🧑🏫 RBI's 3 Ombudsman (ओम्बड्समेन/ शिकायत निवारण अधिकारी)

	Banking Ombudsman	NBFC Ombudsman	Digital Transactions Ombudsman 🧑🏫
When	1995	2018	2019
RBI designates a senior RBI official under	Banking Regulation Act, 1949	powers to regulate NBFCs under RBI Act, 1934	Payment and Settlement Systems Act, 2007
Where does he sit?	21 offices across India	4@ Chennai, Kolkata, New Delhi and Mumbai, looking after respective zones.	Same as BO
Customer can file free complaint against	Any type of bank	- Any NBFC-Deposit-taking (e.g Mahindra, Jindal, Sriram), OR - Any NBFC with assets size of ₹1 billion & customer interface. Although Exempt: Infrastructure finance/debt companies, Core Investment Companies, NBFCs under liquidation. (for them NCLT, SEBI-SCORE).* *	Prepaid payment instruments, Mobile wallets, Apps, NEFT/RTGS and other digital transactions
For amounts*	upto ₹20 lakhs	upto ₹10 lakhs	upto ₹20 lakhs
Penalty	Ombudsman can order penalty upto ₹1 lakh for customer's mental agony, waste of time and money		
Higher Appeal?	Dy. Gov		

- * subject to changes, don't lose sleep over it.
- ** gradually RBI keeps adding more category of NBFCs here.
- 2019: RBI launched online **Complaint Management System (CMS)**: Customers can lodge complaints against any RBI regulated Bank or NBFC → Complaint would be directed to the appropriate Ombudsman
- 2021-Feb: 🧑🏫 BEFORE: RBI appointed 3 types of ombudsman for consumer complaints: (i) Banking Ombudsman Scheme (ii) NBFC Ombudsman (iii) Digital Transaction Ombudsman. 🧑🏫 After: Integrate these 3 into a One Nation One Ombudsman / Integrated Ombudsman Scheme (एकीकृत शिकायत निवारण अधिकारी योजना)



18.17 FINANCIAL INCLUSION: INDIA'S PERFORMANCE (भारत का प्रदर्शन)

18.17.1 Global Microscope Report

- Annual report started in 2007, to measure financial inclusion levels, this report is prepared by The Economist Magazine's Economist Intelligence Unit, Accion global NGO & partners like Bill & Melinda Gates Foundation, Metlife foundation etc.
- 2019's report **measured gender gap** in financial inclusion for the first time.
- 2020's report measures role of financial inclusion in the COVID-19 response:
 - ✦ E-banking can help in cash transfers to beneficiaries
 - ✦  Digital financial frauds in Corona lockdown etc.
- Over the years, this report identified following challenges in India:
 - × full interoperability across payment systems. Lack of financial literacy, no trust in financial system or buying insurance.
 - × Digital divide, grievances redressal. extreme poverty, no surplus to save / invest.
 - × No land / property records → access to loans is difficult.
- 2020's Ranking? #1 pe tie-Columbia and Peru, ... #6: India (last year India was #5) ...total 55 nations.

18.17.2 Global Findex Database 2017: (released in 2018, April)

- By World Bank with help of Bill & Melinda Gates Foundation
- It's published every 3 years. It doesn't give ranking but measures how many % of people have access to banking, credit etc. in a given nation.
- 2017's report appreciated PM-Jan Dhan, now we are parallel to China in % of population with bank account. Financial inclusion helps bringing rich poor divide through targeted delivery of subsidies via J-A-M (Jandhan, Aadhar, Mobile)
- <update when released> Report 2020: NOT released YET.

18.17.3 (India's own) Financial Inclusion Index by DFS

- 2018-Sept: Proposed by Department of Financial Services (DFS).
- This annual index will have three measurement dimensions; (i) Access to financial services (ii) Usage of financial services and (3) Quality. It complies with the format prescribed by the G20.
- No ranking released yet. So DONOT LOSE SLEEP. #  थोड़ा-पढ़ो-आगे-बढ़ो

18.17.4 (India's own) RBI's National Strategy for Financial Inclusion (NSFI)

- ⇒ 2020-Jan: RBI released this report covering the timeframe "2019-2024."
- ⇒ Exact points / salient features = poor cost benefit for UPSC. We already have sufficient points for a 250 words answer.



18.18 MOCK QUESTIONS FOR MAINS (250 WORDS EACH)

1. Explain the significance of financial inclusion & social security for achievement of Sustainable Development Goals (SDG) for India. भारत के लिए सतत विकास लक्ष्यों की प्राप्ति के लिए वित्तीय समावेशन और सामाजिक सुरक्षा के महत्व को समझाएं। Note: SDG-topic is unfinished until we learn Pillar6.
2. Discuss the significance of crop insurance and health insurance in eradication of rural poverty. Enumerate the notable initiatives of the Government in this regard. ग्रामीण गरीबी उन्मूलन में फसल बीमा और स्वास्थ्य बीमा के महत्व पर चर्चा करें। इस संबंध में सरकार की उल्लेखनीय कदमों की सूची दीजिए।
3. How is Ayushman Bharat-PM-JAY is different from the previous centrally sponsored schemes on health insurance? Identify the fiscal and administrative challenges in its implementation. राष्ट्रीय स्वास्थ्य संरक्षण मिशन इससे पूर्व की केंद्र सरकार द्वारा प्रायोजित योजनाओं से अलग कैसे है? वित्तीय व प्रशासनिक चुनौतियों को चिन्हित कीजिए।
4. (Asked in Mains-2016) Pradhan Mantri Jan-Dhan Yojana (PMJDY) is necessary for bringing unbanked to the institutional finance fold. Do you agree with this for financial inclusion of the poorer section of the Indian society? Give arguments to justify your opinion. प्रधान मंत्री जन-धन योजना (पीएमजेडीवाई) बैंकिंग से वंचित लोगों को संस्थागत वित्त / ऋण के दायरे में लाने के लिए आवश्यक है। क्या आप भारतीय समाज के गरीब वर्ग के वित्तीय समावेशन के लिए इससे सहमत हैं? अपनी राय को सही ठहराने के लिए तर्क दें।
5. Discuss in the brief, the reforms ushered by  ATMANIRBHAR package in providing 'ease of credit'. (आत्म निर्भर पैकेज द्वारा 'ऋण में आसानी' के हेतु से किए गए सुधारों के महत्व की चर्चा करें।)
6. Critically examine the need and feasibility of providing agriculture-debt waiver to small and marginal farmers of India. कर्जा माफी देने की जरूरत और व्यवहारिकता पर गंभीर समीक्षा कीजिए
7. (Asked in Mains-2020) "Micro-Finance as an anti-poverty vaccine, is aimed at asset creation and income security of the rural poor in India". Evaluate the role of Self Help Groups in achieving the twin objectives along with empowering women in rural India. ("सूक्ष्म-वित्त एक गरीबी-रोधी टिका है जो भारत में ग्रामीण दरिद्र की परिसंपत्ति निर्माण और आयसुरक्षा के लिए लक्षित है". स्वयं सहायता समूहों की भूमिका का मूल्यांकन ग्रामीण भारत में महिलाओं के सशक्तिकरण के साथ साथ उपरोक्त दोहरे उद्देश्यों के लिए कीजिए)

NEXT Handout: Pillar2: Budget, Taxation